

FROM RATES TO THE POLL TAX

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& Claire Monaghan

From Rates to the Poll Tax

Local Government Finance in the Thatcher Era

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and

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The Fiscal and Budgetary Environment

THE PROBLEM OF FINANCE

Since the reorganisation of Scottish local government in 1975, financing the system has been a central political problem. No fewer than four reviews have been undertaken, in 1976, 1982, 1986 and 1990. This focus is integrally related to concerns with the British economy and the scale of public spending in general. Local government is big business, and authorities are among the largest employers, spenders and investors in their communities. In the financial year 1990-1, Scottish local authority expenditure was in excess of £5,000 million per annum, or £1,000 per capita. Such spending accounts for large shares of both GDP and public sector expenditure and constitutes approximately 49 per cent of the Scottish Office Budget.

Our concern in this study is with the impact of financial reforms on local spending and taxation in the period since 1979. Financial control was, however, a major concern of the previous Labour Government. The reorganisation of Scottish local government in 1975 was presented as a means of strengthening local democracy, but by 1976, the new local authorities were being told that the 'party was over' by a Labour Chancellor of the Exchequer. The IMF loan, high inflation, problems with the value of sterling, all combined to produce a dramatic change in the fiscal environment of local government, from one of expenditure growth to one characterised by financial retrenchment or fiscal stress. In this new atmosphere, Labour's 'soft-core monetarism' enforced cuts in capital expenditure and demanded (and received) cuts in revenue expenditure from local government as can be seen from Table 1.1 (Midwinter, 1984a). A committee of inquiry into local government finance reported on the need for radical reform to promote responsibility and accountability, and interim increases in grants helped alleviate high rates increases (Layfield, 1976). However, it is the impact of the Thatcher Government which is most often presented as eroding local democracy (Jones and Stewart, 1983). But is such a view justified? Rhodes has observed that the Labour Government had effected reductions every bit as great as the Conservatives (Rhodes, 1984).

Table 1.1: Local Government Expenditure in the United Kingdom 1970-1979

<i>Year</i>	<i>Local Expenditure as a % of GDP</i>
1970	14.9
1975	17.6
1976	17.0
1977	15.1
1978	13.0
1979	14.2

Source: UK National Accounts (CSO, London)

Elcock, Jordan and Midwinter (1989) argued that the emergence of the New Right ideology in Conservative politics provided the impetus to an existing trend. The Labour Government introduced cash limits on grants, current expenditure guidelines for individual authorities to assist them in planning their spending, grant reductions, grant penalties for overspending, and they toyed with creating a unitary grant system similar in objective to the present system of grant distribution and strikingly similar in logic to arguments subsequently made for the community charge. A 'unitary grant' would allow each authority to provide similar services to other authorities if it levied a standard rate level, thereby creating clearer accountability for electors.

The Conservatives' close association with the erosion of local democracy is in part attributable to the hostility of their rhetoric. Local government was attacked for being 'wasteful, profligate, irresponsible, unaccountable, luxurious and out of control' (Newton and Karran, 1985, p. 116). The 1979 Government's attitudes were both a continuation of and a marked departure from the concerns of the past. The drive for economy was not new (the previous Labour Government produced consistent reductions in local expenditure), but the Conservatives' specific interpretation of the need for efficiency and value-for-money was radically different.

For most of this century, local government has been regarded as an efficient means of providing local public services (Sharpe, 1970). The reorganisation of local government into fewer but larger authorities was in part conducted to promote functional efficiency. It is commonplace to argue that this reflected the 'social democratic' consensus. What is distinctive about the New Conservatism is its concern to make a radical break with this consensus, and within a local government context, the policy instruments developed reflect a lack of faith in bureaucratic provision through democratic choice.

HISTORICAL DEVELOPMENTS IN LOCAL GOVERNMENT

In the early development of Scottish local government, considerable income could be generated from corporate property, and in particular from the

Common Good in the case of the royal burghs. This consisted mainly of land and houses and could be used for any communal purpose at the discretion of the council. By the end of the nineteenth century, however, its importance in local government finance had become marginal.

The main source of local income for most of the history of local government has been a form of property-based taxation known as rates. In the minimalist stage of the development of local government (1600–1825), the local rates provided the basis of the embryonic welfare state. Parish rates formed the starting point, and this assessment was levied on all of the inhabitants according to an estimation of their means and substance. Given the structure of *ad hoc* authorities, the practice was developed of establishing separate rates. Taxing the occupier was seen as an important link between elector and ratepayer, and in many cases the new electors were reluctant ratepayers! This also resulted in different obligations for taxpayers, with some paid by house owners (sewer rate), some by occupiers (the burgh general assessment), and some shared between each category (the lunatic asylum rate) (Atkinson, 1904). There were also rates for police, roads, water supply and public health, and in the reformed system of the late nineteenth century there were three rating authorities – parochial, county and burghal. Further reform in 1929 left only two rating authorities – counties and town councils – with other authorities requisitioning their budgeted expenses from rating authorities (Mitchell, 1964).

The nineteenth century was a period of expansion and fragmentation, with separate grants-in-aid proliferating from 1847 onwards. The earliest Scottish grant from central to local government was in aid of expenditure on poor law medical relief. Grants followed for police, paupers, lunatics, roads, special relief to the Highlands because of the combination of poverty and high rates, and elementary education grants. The grants, however, were paid on a percentage basis, and this stimulated expenditure and provision. The reforms of 1889 marked the beginning of a process of consolidation. The appeasement of the landed elite was achieved by partial derating of agricultural land, leading to the institution of democratic county government and the gradual assimilation of rates and then grants. While the Royal Commission on Local Taxation proposed a unitary grant in 1901, it was not taken up and rationalisation was not achieved until 1929. For many years, the growth of grants was haphazard and piecemeal, and thus it is difficult to ascertain exactly how much was being transferred from central to local authorities. The increasing role of grants in local finance was viewed as creating a dangerous breach between representation and taxation in the nineteenth century, and only later did the role of grants as a mechanism of central control come to be understood. Specific grants were described as ‘ear-

marked' and were only given if certain standards were observed by the local authority.

The development of local government finance continued on the basis of a single local property-based tax supported by government grants. In 1888, the government adopted a system of assigned revenues, in part to overcome the emerging problems of expenditure control in the open-ended system of percentage specific grants. Initially, it was thought that this would maintain the distinction between national and local finance, whilst permitting a degree of local taxation which did not promote extravagance within local authorities. After only twelve years, the government returned to specific grants. The Treasury and the spending departments disagreed over the issue. The Treasury objected to the effect that open-ended commitments to specific grants had on central government expenditure. Departments, on the other hand, liked their capacity to foster the development of services. This tension between service development and expenditure control has never really been resolved.

The 1929 reforms introduced block grants in addition to specific grants for education, police and housing. Compensation for the loss of revenue through the derating of industry and agriculture was also provided. The system was further consolidated in 1959 and the number of specific grants reduced. The new general grant was seen as supporting local authorities in a way which left them to choose their own pattern of priorities. While providing a means of central control over expenditure, percentage grants were regarded as an indiscriminate incentive to further expenditure, but once services were developed the centre had less need to use the carrot of specific grants. General grants changed the emphasis of the system, from one where grant income was directly related to expenditure to one where the grant total was fixed in advance and distributed on a weighted population formula irrespective of the actual expenditure of the authority (Boyle, 1966). The process of consolidation was completed in 1967 with the introduction of the Rate Support Grant system containing elements related to needs and resources. It resulted from a protest by ratepayers in 1966 and led to increased financial support from central government (Midwinter and Mair, 1987).

The history of local government finance is one of piecemeal development and change, to accommodate service expansion and growth, followed by consolidation of rates and grants to facilitate expenditure control. For most of the time, taxation was directly related to the electoral franchise.

The extension of democratic control was a persistent trend in the nineteenth century in Scottish local government. At first minimal, by the early part of the twentieth century the growth of the franchise was substantial. Before 1833, local democracy as we know it today did not exist. There were corrupt oligarchies in the burghs, church dominance of the parishes, and

county government was in the hands of the resident landowners (Dyer, 1978). The extension of democracy was gradual. Bealey and Sewel (1981) estimate that only 2 per cent of the population of Peterhead was enfranchised by the 1833 reform, which was confined to owners and occupiers of property valued at £10. By 1939, half the population of Peterhead had been enfranchised. Bealey and Sewel depict three periods of municipal reform – *elective oligarchy* (1833–68), *expanding democracy* (1868–1918), and *democracy fulfilled* (after 1918).

The reforms of 1868 discriminated between urban and rural areas, to protect the now rather precarious position of the Scottish landed class. In the burghs, the franchise was granted to all householders and £10 lodgers. In rural areas, owners of land worth £5 per year received the vote, but for tenants, the qualification was fixed at a rental of £14 per year. The result was that only 4 per cent of the rural population was enfranchised compared to 10 per cent of the urban population. The reforms of county government in 1888, and parish government in 1894, completed the shift to popular control with an even wider franchise for school boards described as 'the final triumph of democracy' (Atkinson, 1904). The extension of the franchise was, therefore, one of progress towards a ratepayer democracy whereby ratepayers controlled the spending of money raised. The electoral arrangements in Scotland were not uniform and different rights to vote were found in burghs, counties, parishes, and school boards. There is evidence of both political and elective apathy, with large numbers of uncontested seats and low turnouts.

The form of local politics differed between urban and rural Scotland. Rural society was regarded as homogeneous, with little conflict and infrequent elections. The dominant consensus was based on minimising expenditure and seeking government financial support. Rural authorities did not indulge greatly in the trading services which were common in urban Scotland. In Glasgow, the progressive philosophy accepted intervention by the local authority where it would assist the private sector or replace it in areas of market failure, such as law and order, transport, water and electricity, where municipalisation also brought benefits of economies of scale. Hart's 1982 study showed clearly that financial economy was a major concern. Expansion during the period 1870–95 was achieved with a stable city rate because it concentrated on progressive elements, such as municipal trading and by the sale of land to finance the development of public amenities such as public parks. The City Improvement Trust hoped to utilise this strategy to allow slum demolition but its failure and the necessary rate increase had a direct effect on the local electors. Hart also found evidence of the impact of social bureaucracy on public health by identifying sophisticated linkages between

health, housing, social habits and poverty, while raising doubts about the capacity of market mechanisms to tackle the consequences.

Party politics in local government grew in the twentieth century. From the 1930s onwards Labour began to dominate urban politics, with the singular exception of Edinburgh which remained a Progressive stronghold. Labour expanded municipal housing, but its development was erratic because of changes in government and ideology. Labour in Scotland became synonymous with the defence of council housing, jobs in heavy industry and sectarian schools (Smout, 1986). Fry (1987) went as far as to describe Labour as learning to hold the support of their client electorates through housing policy, with low rents, large deficits and gross inefficiency, whilst Kellas (1989) described council tenants in electoral majority as virtually subsidising themselves out of the rates. Why, then, has electoral support for Labour, both nationally and locally, fluctuated? The answer may be that electors do not see the issues so simply in terms of individual self-interest that limit the analysis of some writers.

The rural areas did not experience this rapid expansion of party politics and municipal expenditure. Electoral contests were infrequent, and the politics of non-partisanship has been viewed as thwarting accountability (Dyer, 1978). Studies of rural local politics point to the dominance of financial economy as the pervasive local issue. Given the ratepayer basis of the extension of democracy in the nineteenth century this is not surprising. Moreover, it reflected the desires of the community, just as the expansion of services did in the urban areas. The prevailing belief in low expenditure and taxation pervaded all classes, and there was always opposition to the provision of new amenities which would increase rates, but support for public investment by central government. They record how ratepayers' candidates tended to succeed when voters were mobilised on the side of economy. The extension of democracy merely expanded the number of people who did not wish to pay rates. Independent politics became the dominant form of rural politics based on an ideology of consensus, uncontaminated by party machines, and with a twin strategy of rate containment and, what Americans now call 'grantsmanship', a strategy of persuading central government to finance innovation. As Bealey and Sewel (1981) wryly observed, the idea that local government should obtain its funds from the government was never favourably received.

Local government does not, therefore, function in a political vacuum but in the context of influence and control by government at the centre. While there have been clear themes of retrenchment and fiscal restraint on social democracy at the local level, political ideas about the role of local government are also influenced by the dominant conception of political economy and the role of the state. Local authorities are creatures of Parliament. They

receive their powers from Parliament and are constrained by the *ultra vires* principle that they must always operate within the framework of law. Most importantly, they are constrained by the economic strategy of central government. The range of council services provided reflects political decisions based on the social desirability and economic justification for their public provision. In their analysis of the growth of British public spending, Peacock and Wiseman (1961) argued that the size of government expenditure reflected political views about the role and scope of government. In the nineteenth century, the dominant economic philosophy was the doctrine of retrenchment. This doctrine was an operating principle of public finance reflecting the notion that taxation was a burden whose economic consequences were manifest in unemployment. The year 1890 was a turning point when:

a philosophy of expansion was being positively encouraged by the idea that government spending might actually generate incomes, and was reinforced by the widening of the franchise which increased the political importance of the group most likely to believe that public expenditures should be increased for their benefit, but that the necessary revenues should be raised from others by such means as progressive taxation. (Peacock and Wiseman, 1961, p. 67).

Whereas in the past Parliaments had acted as a brake on government spending, they now became favourably disposed to it.

This dramatic change in economic philosophy had implications for local government. Over the twentieth century, three major trends can be identified. The real growth of local expenditures, which Peacock and Wiseman estimated at 600 per cent between 1890 and 1955, continued a trend which reached a peak as a percentage of GDP and total public spending in 1976. Secondly, the growing financial dependence of local government on central government reflected the strain on the rating system of the expansion of what were, in effect, national services, even though the form of grant eventually changed from specific to general support. Local spending and taxation grew at a slower rate than that of government expenditure and taxation as a whole, a trend which Peacock and Wiseman called the concentration process, resulting in a system of governmental interdependence. The range of local authority services increased despite the loss of municipal trading functions, but the financial and legislative initiative moved to the centre. Central government was predominant in the planning of expenditure and service development whilst local government became the prime vehicle for service delivery. Governments reorganised local authorities into fewer but larger units to provide broader tax bases and economies of scale in service provision. Economic interventionism as a medium for achieving growth and development required nothing less. The principle of universal suffrage replaced the

ratepayer principle (although fiscal prudence remained a key characteristic of local politics), with local elections seen as a means for the whole community to take decisions on policies, taxation and service levels. Ratepayers were protected from increases in spending by increases in government grants, and the real cost of rates changed little prior to reorganisation. High grants and low rates were the norm, except in periods of very high inflation when the inelastic nature of the tax brought large increases and ratepayer protests (Miller, 1988).

The system of 'ratepayer democracy' was replaced by 'representative democracy' based on universal suffrage. Whilst, as Dilys Hill (1974) observed, there is little in the way of a priori theory about the principles of local government, a central assumption was that popular control was achieved via the ballot box. This principle of representation sees elections as the means of holding councils and councillors to account. According to the Layfield Report (1976), elections are the main mechanism of accountability, and thus the essence of local democracy. Strengthening local democracy is a theme returned to with regularity as the basis for political/financial reform. However, universal suffrage has also been regarded with some unease by champions of ratepayers, whose strongly held assumption that consumers of services should pay for them remained. Ratepayer revolts recurred from time to time in the post-war period, but Conservative governments normally tackled them by increased grants to reduce the effect of increases on rates.

A second key feature of representative democracy is the value of pluralism, the spreading of political power within the state to provide for checks and balances in the system (Widdicombe, 1986). There is no doubt a strong normative argument that in a democratic society the dispersal of power should be promoted to reflect political diversity. The reorganisation of local government in 1975 was justified on the need to strengthen local democracy (Wheatley, 1969). However, high inflation and the consequent high rates increases quickly brought the system under closer scrutiny with concern shifting from representative democracy to one of responsible government. The Layfield Report (1976) argued that the time had come for a choice on the issue of responsibility, and this required a decision to actively promote local government and accountability, or a shift towards greater central control and a domination of local autonomy. It preferred a localist solution in which central grants were reduced, and the rates supplemented by a local income tax. Layfield offered up financial solutions within conventional assumptions about elections and accountability. Electors are the best safeguard against inefficiency, but reforms in the financial structure were needed to enhance this role.

Layfield was more concerned about shifting the balance of taxation and

providing a buoyant system, than simply spreading the tax burden across electors. This echoed the earlier Wheatley Report (1969) into local government, which believed it was 'absolutely fundamental that local authorities should be enabled to raise a much higher proportion of the money they spend' (pp. 246-7). Central controls have had a damaging effect on local independence and initiative. The Layfield diagnosis saw these centralist trends as reducing the scope for local discretion and accountability, as central government assumed greater responsibility for local tax rates.

The Government of the day rejected these arguments. It saw no need for, nor prospect of, clearer divisions of responsibility and accountability. A leading member of the Layfield Committee, G. W. Jones (1980), argued for further reforms to the system, and specifically regarded a reduction in grants and the introduction of local income tax, as the means of making more people aware of their contribution to local government. Such ideas were central to the major reform of taxation introduced by the Conservatives in 1989. Increasingly, finance and accountability were seen to be directly related.

THE BUDGETARY CONTEXT

In this section we provide an exposition of the local budgetary context. Budgeting does not occur in vacuum, but in a constrained political environment. These constraints are both external and internal and serve to reduce the scope for local political choice.

Firstly, local authorities operate under *statutory* constraints. Some of these are obligatory, where local authorities must provide a specific service, and others are permissive, leaving it to local choice. Statutes, however, provide degrees of local discretion over the extent, pattern and form of provision, and this results in spending variations between councils.

The link between statute and finance was made lucidly by David Rosenberg, who argued that:

Statutory legislation protects areas of departmental budgets at local government level; it also has the tendency to reinforce incrementalism: but such legislation does not cover the whole of a departmental budget. These margins of budgets can be of extreme importance, both symbolically and in relation to policy changes. (Rosenberg, 1988, p. 82)

A major statutory constraint on budgetary choice is the requirement to operate the *balanced budget* rule; local authorities may not as a matter of policy budget for a deficit, though they may maintain a working balance. This year's expenditure must be met from current income, although local authorities may borrow to finance revenue expenditure pending receipt of

income. Budgeting nevertheless is an inexact science, in effect a forecast of estimated expenditure, and at the end of the year it may show a surplus or a deficit. Surplus balances may be drawn upon in the coming year, with the effect of reducing the tax demand. A deficit is funded by borrowing in the short-term and raising the necessary taxation to cover such borrowing in the following year.

There are governmental *policy constraints*. Good examples of such are the approved pupil-teacher ratio in schools, and the approved manpower establishments in the police service. These are *not* legally binding on local authorities, but in practice provide a reference point or standard against which politicians and professionals will assess the adequacy of local services. For example, both opposition politicians and professionals consistently attack Strathclyde's Labour administration for 'underfunding' the police, as the budget does not suffice to provide manpower at the authorised establishment level, interpreting the position as a 'shortage' against central government's benchmark. Such policies do not 'control' local service levels, but they do 'constrain' them by creating public, professional and political expectations.

A third related constraint is government grants. In the period of study, this has assumed increasing importance as grant reductions were used as a policy instrument to induce lower spending. Local budgets, however, reflect the accumulation of policy and spending decisions over a number of years, and political (in terms of the expectations of the community that existing services will remain) and administrative (in terms of the high element of labour costs and potential redundancy payments) constraints serve to ensure that year on year changes are marginal. Thus, at the level of the individual local authority, the Government does not have the power to deliver a spending level acceptable to it, although in a few cases it can intervene and require a reduction (INLOGOV, 1981).

In contrast, grant decisions can have an influence on the aggregate level of local spending, and alterations to the grant percentage have been regarded as the most straightforward means of controlling local expenditure (Foster, Jackman and Perlman, 1980). A recent study by the Audit Commission showed that the overall impact of grant reductions at the local level was considerable, and that few authorities increased rates by more than was necessary to compensate for grant reduction (Audit Commission, 1984).

Additionally, local authority services are labour-intensive, and this generally results in *cost inflation* above the national average. Pay settlements are key factors in the budget framework, and, despite the Government's desire to move to local pay bargaining, they still result in negotiations between the local authority associations and trades council. Moreover, around 10 per cent of revenue budgets are in the form of interest payments from borrowing for

capital finance. In general, these factors, in addition to government grants, must be treated as *given*, (the authority can do little to affect them) in the budget arithmetic.

The final external constraint comes from *community needs, aspirations and pressures*. Local services are provided for people, and demographic patterns clearly do have implications for services and spending. For some years, additional resources have been provided in grant settlements for the growing numbers of elderly, whilst reductions were proposed for falling school rolls. Interest groups will actively lobby for community improvements, or to prevent loss of services such as school closures. Local decisions are in essence political judgements as to what to provide. Studies of influence of needs on local spending have found their impact to be moderate (Boaden, 1971; Schofield, 1978). As Newton and Karran note, the relationship between 'needs' and 'spending' is not a mechanistic one.

Local spending does not arise automatically in response to changing population patterns, any more than service quality improves as a mechanical response to increasing affluence. For these things to happen political decisions must be taken, political policies and priorities must be adopted and political issues about budgets have to be resolved. Increases (and decreases) in local spending must, in other words, be implemented by government officials engaging in cuts of political will, or bowing to political pressures. To this extent, increases in local spending are not simply an involuntary response to changing social and economic circumstances ... Social and economic changes have no implications for local budgets unless ... and until politicians recognise them and cut accordingly. (Newton and Karran, 1985, p. 67)

Finally, there are *internal constraints* on budget-making, in the form of existing commitments. Schools, residential homes, roads, and so on already exist with public expectations that they will remain. Staffing levels and conditions of service reflect past decisions and compromises. Each year, new capital projects are completed, with subsequent implications for the revenue budget or at least new interest payments in the case of renovation and replacement. In the case of new services, additional running costs will impact on current expenditure.

Our focus in this chapter will be on budgeting as a means of political choice (Clarke and Stewart, 1988), not a narrow accounting document for means of financial control, although that is an important dimension of the budget. Our approach, however, is to recognise that choice is constrained and concentrated at the margins of expenditure.

Whilst New Right radicals might regard that as unnecessarily defeatist, we do not know of any research which points to councils achieving large and

sustained budget reductions over a prolonged period of years. We also contend that this process of constrained choice is reflected in what are commonly known as 'incremental' approaches to budget-making. Such approaches are examined in greater detail in the next section but budgetary systems such as Planning, Programming and Budgeting Systems (PPBS) or Zero-Based Budgeting (ZBB) have had a quite limited impact in Scottish authorities (Elcock and Jordan, 1987). In part this reflects overambition, (Midwinter, 1984a) but it is also a result of their unsuitability in a political context. Greenwood (1984) argues that PPBS was a powerful myth which failed because incrementalism was consistent with the dominant ideology in local government. Even right-wing commentators have become pessimistic at the potential for budget reform, and prefer to concentrate on other policy instruments for reducing local government spending (Pirie, 1988).

Local budgeting occurs at or around the margins of existing expenditure. Such margins are, however, symbolically and politically important: they are at the heart of the politics of the budgetary process.

THE BUDGETARY PROCESS

The study of budgetary processes in local government has been dominated by a single theory – incrementalism. Whilst there have been criticisms of the conceptual imprecision and explanatory limits of incrementalism, refinements to the theory (Danziger 1978a; Greenwood *et al.* 1977; Rosenberg 1988) have accepted the basic tenets of the incrementalist model. Incremental approaches to budget-making are widely recognised by practitioners as 'the way things are'. The theory, however, was developed in the budgetary context by Aaron Wildavsky (1964) in his study of the American federal government, from earlier work on decision-making by Charles Lindblom (1959), and subsequently applied and refined in a range of budgetary studies. Wildavsky's original formulation is worthy of consideration at some length.

Wildavsky regards the budget as essentially a political process. Governmental budgeting is the political allocation of finance for public programmes. For Wildavsky therefore, it records the outcomes of the political struggle over whose preferences shall prevail in national policy, or more simply, 'who gets what the government has to give' (Wildavsky, 1964, p. 4). The budget is no mere accounting device, but a political document at the heart of the political process.

The allocation process is essentially political because there is no objective way of comparing different programmes and determining priorities. These programmes include defence, highways, schools and welfare, which are differentially valued by family. To cope with the limitless alternatives which

face them, budget officials 'satisfice' (Simon, 1958). That is, they do not seek to allocate resources optimally to meet predetermined objectives. Rather they adopt a strategy of basing the new budget on the existing one, so that most of the budget is a product of previous decisions:

The budget may be conceived of as an iceberg with by far the largest part below the surface outside the control of anyone. Many items in the budget are standard and simply re-enacted every year unless there is a special reason to challenge them. (Wildavsky, 1964, p. 13)

The incremental approach bases the budget on last year's budget with special attention given to a narrow range of increase or decrease. This is seen as political realism. Officials confine their attention to items they can do something about. In doing so, they develop assumptions about fair shares, which incorporates the existing base and a proportion of any new monies. The base is, therefore, an aid to calculation.

In Wildavsky's model, a central assumption is that officials will strive to increase their budget, but achieving this requires more than simply maximising tactics. It requires a 'political judgement' of 'what will go'. Wildavsky argues that explanations of budgetary growth lie in the calculations and strategies used:

Budgetary calculations are incremental, using a historical base as the point of departure. The existing level of expenditure is largely taken for granted and, for the most part, only small changes are seriously considered. The distribution of roles among the participants operates in such a way that most transactions involve reductions in the increased amounts proposed by agency advocates thus helping account for the slightly rising trend of expenditures. The use of strategies by the affected administrative units and their supporters also helps account for the difficulty of sharp reductions as well as the likelihood that the new conditions created by a depression or war or other social disturbance will be seized upon through crisis strategies. (Wildavsky, 1964, p. 125)

In his later work, Wildavsky recognised that his model had less applicability in developing countries characterised by financial uncertainty. He also recognised that whilst basically incremental, the budget process does respond to the needs of the economy and society, but only after sufficient pressure has built up to cause abrupt changes precipitated by these events (Davis *et al.*, 1974, p. 421).

The basic features of the budgetary process remain, though, and reflect the political system. The desire for expansion reflects the bureau's need to respond to clients, and its own staffs. Success in budgeting is reflected in growth.

There is little dissent about the accuracy of incrementalism as a descriptive model of the budgetary process. To summarise:

- the starting point of the budgetary process is the definition of the base, around which the budget review and subsequent bargaining and negotiation take place;
- that review will be confined to the consideration of marginal changes, a few items of growth, or proposals for savings;
- the information on which that review is conducted will concentrate on measures of input rather than questions of policy;
- the roles of budget actors are fixed and predictable. Finance officials will seek to curtail spending, and service departments seek to promote/defend it.

Incrementalism has, however, been much criticised on a prescriptive basis by academics, practitioners and management consultants (Eddison, 1973; P A Management Consultants, 1978). With little explicit analysis of the objectives of programmes, or measures of performance, it is argued, incrementalism is potentially wasteful, as programmes continue to be provided because of historical commitment irrespective of whether they are still relevant to current needs. Attempts to 'reform' the budgetary process in the 1960s were deeply influenced by more 'managerialist' or 'rational choice' approaches, whereby participants list and evaluate goal priorities, pose the alternatives for achieving the objectives and choose the programme which optimises benefits relative to needs. These ideas were incorporated in an ambitious approach to budgeting known as Planning, Programming, Budgeting Systems (PPBS), with which there was some experimentation in English local government. PPBS sought to reconcile the policy-making process with resource allocation. It emphasised questions of policy rather than finance, seeking to relate budget inputs to programme outputs. Unfortunately, no empirical studies of PPBS exist, and in Scotland, it was rejected as a basis for corporate planning in local government by the Paterson Report of 1973. Indeed Boyle (1972) argued that if PPBS was not modified it would profoundly alter the existing political processes of local government, and he foresaw problems of setting objectives, measuring output, and organisational politics. Dearlove (1979) argued similarly that advocates of reform tended to ignore the political, informal and economic factors which infringe upon local government and sustain incremental approaches.

Studies of budgeting in local government have recognised the persuasive-ness of incrementalism in the field. The first of these was the work of James Danziger, who examined budget-making in four English county councils during the 1970s. Danziger noted that the belief in rational decision-making is 'seductive', and constitutes a normative view of budgeting as the optimal solution to allocating scarce resources (Danziger, 1978a). However, rational choice approaches assume intellectual capacities, sources of information,

Table 1.2: Budgeting is Incremental

0 – 5	6 – 10	11 – 20	21 – 30	31 – 40	41 – 50	51–100	100 +
149	84	93	51	21	15	24	7

Notes

1. Figures recalculated from those supplied by Richard Fenno.

2. Table shows the number of cases of 37 domestic bureaux over a 12 year period that fall into various percentages of increases over the past year (444 in all).

and quantities of time for decision-making which do not exist in real situations. In contrast, incrementalism is based on the notion of bounded rationality, or cognitive limits. The techniques of incremental decision-making simplify choice and make it manageable.

The second major study of local authority budgeting of relevance is the work of Royston Greenwood and his colleagues at the Institute of Local Government Studies in the mid-1970s. Based on a sample of twenty-seven authorities, their findings are recorded in a number of major papers.

In their article, 'The Politics of the Budgetary Process in English Local Government', Greenwood, Hinings and Ranson (1977) acknowledge the centrality of incrementalism in budgetary studies, and use it as the starting point for their work. They regard it, however, as an ill-defined theory which focuses on two dimensions – budgetary changes and budgetary process – and they note Bailey and O'Connor's (1975) criticism that a linkage has been built into the theory that is not justified from the available empirical evidence. The descriptive model of incrementalism as a budgetary process has led to an assumption that bargaining results in budget increments which are small changes from the existing base. If correct this would indeed be a major weakness of the theory. The source of the argument is Wildavsky's derivations from Fenno's study (Fenno, 1966) and what is seen as a permissive definition of incrementalism as any budget change up to 30 per cent of the existing base. For purposes of exposition, the original table is presented as Table 1.2.

Using Wildavsky's definition, over 84.9 per cent of allocations are incremental. There does seem some merit in considering whether increases of the range of 30 per cent can be considered 'small'. The figures, however, are in cash terms and do not distinguish between budget increases which are merely uprated for inflation (i.e. cost increases) and those which constitute service developments (i.e. real budget growth). If such allowance was made, one suspects the increases would appear more incremental than at present.

The qualitative aspects of the programmes are not compared. Percentage increases on a small base can be non-incremental for the programme, but incremental for the budget as a whole. A more rigorous analysis of the data

would help clarify such issues. Responding to such criticisms, Dempster and Wildavsky recognise the problem, and place greater emphasis on incrementalism as a method of problem solving and calculation, placing less stress on it as a measure of change. They argue:

The key terms are 'existing base', 'small number of items' and 'narrow range of increases or decreases'. One knows whether a method of budgetary problem solving is or is not incremental, by whether or not decision-making focuses around the existing base (which may be approximated by last year's amount) and by the number of options considered. (Dempster and Wildavsky, 1979, p. 371)

They see incrementalism, therefore, as a budgetary system rather than a theory of budgeting in the purest sense. Indeed, accountancy text books classify systems in this way (incrementalist budgeting, programme budgeting, zero-based budgeting). Studies of local authority budgeting concur (Rosenberg, 1984, pp. 50-1, Elcock *et al.*, 1989). In the paper under discussion, Greenwood *et al.* (1977) argue that budgets are incremental in this sense, as 'budgetary complexity overwhelms the ability of decision-makers to examine anything more than the margins (increments) of expenditures and that inevitably produces a budget close to that settled the previous year' (p. 45).

The Inlogov team argue that the change in the financial context of local authority budgeting from growth to retrenchment, and the development of new systems of corporate management, will result in greater centralisation of budgetary control, and more use of rational analysis rather than political advocacy as the basis of decisions. Whilst they acknowledge that Wildavsky regards budgeting as a process of political choice, they argue:

Disappointingly there is no elaboration of how these political undercurrents operate. We are informed that they exist, and given glimpses as to how they operate. There is no conceptual scheme, however, and a total lack of a theory which goes any way towards a political account of the budgetary process ... there is very little theory of the budgetary process which takes as its starting point the conflict of groups within the organisation. (p. 29)

Their approach is to regard the local authority as a political system in which conflicts of interest arise, and in which professional officers participate in a system of organisational politics which involve intentional acts of influence to enhance or protect the self-interest of individuals or groups. Organisational politics occur because resources are scarce and there are conflicting departmental priorities and perspectives on how those scarce resources should be used, as these organisational interests reflect differing values. In authorities where the values of corporate planning are stronger than those of

professionalism the prospects for a non-incremental, rational budgetary process are greater. To test this hypothesis, they constructed an *index of rationality*, which utilised such concepts as the *parameters of review* and the *mode of analysis*. A greater degree of corporate planning was hypothesised to result in more extensive budget reviews, greater use of bureaucratic criteria for evaluation of budget proposals, and less stability of allocations than in classical incremental systems with an emphasis on political feasibility.

Greenwood *et al.* argue that in theory, the parameters of review in the budget process could vary from an authority with wide parameters of review in which the whole of the base budget is reviewed each year at one end of the spectrum; to an authority with narrow parameters of review in which only small proportions of the budget are reviewed (or none at all?). In authorities with greater incidence of rational analysis, resource considerations are replaced by 'output considerations', considering 'the consequences of budgetary expenditure, showing the policy choices available, and the outputs supported by different policy choices'. (p. 44)

Their research found correlations between extensive corporate organisation and the use of rational analysis. However, they also found such systems resulted in *stability of allocations* which is regarded as a feature of the incremental approach. The authors are puzzled by this, and offered the following explanation:

authorities that had carried out a more rational appraisal of parts of their estimates were more likely to appreciate the consequences of slashing the education budget by ten per cent. Familiarity in this context makes it difficult to cut arbitrarily and wildly. Moreover, authorities struggling to increase the amount of commitment to corporate planning could well decide not to disturb the existing pattern of resource allocation. Substantial budgetary changes could easily lead to dissatisfaction with the newly introduced corporate system, and undermine any attempt to build a firm base of widespread commitment to corporate values. By leaving the interests of departments undisturbed in one budgetary cycle it may be possible to have more budgetary change in subsequent years as the level of commitment to corporate planning increases and makes possible further rational appraisal. (p. 45).

Greenwood *et al.* regard the inverse association between narrow parameters of review and high budgetary allocation as a potentially spurious one. Alternative explanations are offered in a subsequent article by James Danziger (1978b). Firstly, he argues that the reported use of rational analysis can be more image than substance. Secondly, he argues that rational analysis may indeed promote more incremental decisions.

There are conceptual problems in these interpretations. Is it in fact correct to characterise more extensive budget reviews as more rational? Rational choice would involve explicit choices about alternative ways of meeting a programme objective, but in practice, budgetary options tend to refer to alternative ways of meeting a financial target. More extensive reviews are not necessarily the antithesis of incrementalism, if the mode of analysis changes little. Secondly, stability of allocations could conceal changes in the pattern of provision, and a reallocation of resources measured as a share of the budget may only reflect changes in the relative costs of providing the same volume of services. For example, in 1979, the police received a much higher level of pay settlement than other local authority employees, and the budget share of the service rose accordingly.

A more relevant test of the impact of corporate planning would be to focus on the budgetary changes themselves. Judgement as to the extent to which greater coherence in decision-making resulted would be a possibility, but this would require evaluation of specific decisions and the extent to which these were consistent with corporate priorities, rather than aggregative decisions on resource allocation.

Finally, it should be noted that although Greenwood, Hinings and Ranson chide Wildavsky for his neglect of organisational politics, apart from cursory references to 'wheeling and dealing' and 'padding the estimates', their paper offers little exposition of how this bargaining takes place, or of its impact on budget allocations.

Whilst there is some justification for this in their attempt to explain why some authorities have more 'rational systems', the paper nevertheless hardly reflects their assertion that budgetary theory should be placed in the context of organisational politics. We return to this point in the next section.

In another paper 'Incremental Budgeting and the Assumption of Growth' (Greenwood, Hinings, Ranson and Walsh, 1980) the authors examine what they see as a second key assumption of incrementalism, namely resource growth, and suggest that under conditions of financial restraint government agencies tend to become less incremental. They acknowledge that Wildavsky's thesis refers to 'increases and decreases', in effect 'the thesis of incrementalism would have it that only proposals for new expenditures are subject to scrutiny'. This is somewhat contentious. Wildavsky's thesis was formulated in periods of growth, and it would normally require some strategic political guidance for spending cuts to be pursued. In such cases, it would still be the case that the bulk of the budget base would go unscrutinised, and whilst the result might be 'decremental' rather than 'incremental', this is hardly a major weakness in his formulation. As Wildavsky notes, the political realities are such that budget officials 'restrict their attention to items they

can do something about – a few new programmes and *possible cuts* in old ones' (p. 16, author's emphasis), and again; 'having a project included in the agency's base thus means more than just getting it in the budget for a particular year. It means establishing the expectation that the expenditure will continue, that it will not normally be subjected to intensive scrutiny'.

Again, the research focuses on similar analytical concepts, base review, and the mode of analysis. In this paper, the authors accede to the veracity of the incrementalist thesis:

'Local authorities do have limited parameters of review, and they do arrive at choices following primarily political and not rational analysis. In our researches it was comparatively unusual for an authority to practise anything remotely like zero budgeting'. (Greenwood *et al.*, 1980, p. 30)

They argue that fiscal stress will lead to wider parameters of review and increasing utilisation of rational analysis. In their search for rationality, however, they argue that authorities use conventional approaches to cutting spending such as common percentage cuts, pro-rata cuts, or differential cuts although in some authorities, however, departments are allocated cuts on the basis of corporate planning, based on strategic and issue analysis. Strategic analysis includes:

1. Preparation of a 'profile' of the social, economic and physical circumstances of the local authority.
2. Preparation of a summary 'position statement' of the services and activities of the council.
3. Preparation of new kinds of budgets including:
 - a) multi-year expenditure projections to show the trend of expenditure;
 - b) the arrangement of data for purposes of planning rather than for financial control.

Issue analysis, contrastingly, is not focused on the authority as a whole, but on specific factors, issues, or aspects of its services, for particular groups or areas.

Their empirical findings show that whilst there was an increase in the capacity for rational analysis, the rate of increase was in decline by 1976–77, and they asked why the pursuit of rationality was slackening? Was this a short-term phenomenon? They suggest that the answer may lie in the level of, and consequences of, fiscal stress, whereby '– the lifting gloom, and familiarity with it, reduced the push for rationality' (p. 43). They conclude that the evidence is clear. In the years following the imposition of serious restraints upon the flow of available resources greater use will be made of rational techniques to facilitate choice between competing programmes and budgetary famine decreases the likelihood of incremental budgeting. This appears to be an optimistic interpretation of the data, which is confined to

evidence of *reported availability* of techniques of rational analysis, rather than evidence of its *impact* on resource decisions. A later paper by Greenwood confirms this assessment. He argues that the use of rational techniques is an attempt to apply universalistic or bureaucratic criteria to the allocation of resources. However, the evidence showed that:

there was a *relative* movement away from the incremental approach *except* in the mode of analysis deployed for making choices between agencies [p. 166, author's emphasis] ... although fiscal pressure led authorities to question some of the assumptions of the incremental approach ... the emphasis upon essentially political criteria for the allocation of resources remained. (Greenwood, 1984, p. 167)

It is arguable, then, that what the Inlogov research shows is not the decline of incrementalism, but its resilience and continued relevance. More recent work by Rosenberg (1988) recognises that incrementalism has become a conventional wisdom in political science and accounting research orthodoxy. He too, is concerned with the organisational politics of budgeting, but is less seduced by rationality and managerialist reforms: 'PPBS, ZBB and other managerial fads were all legitimated as scientific and prescriptive models of how decisions should be made ...' (Rosenberg, 1988, p. 61)

For Rosenberg, explaining budget outcomes required a more detailed exposition of roles and relationships, strategies and tactics, than found in the previous studies. He too, accepted the main tenets of incrementalism. His concern was with how politics and power operated *within* the budgetary process. The concern with rationality in organisation theory he found an unnecessary distraction, which imposed a category of a universal abstract rationality on the analysis of the internal organisation and politics of local government. Similarly, Ferlie and Judge (1981) warn of the need to distinguish between image and reality. The evidence of a formal corporate structure is no guarantee of rational behaviour. As Jordan (1988) argues, whilst it is comparatively easy to introduce the forms of corporate management, it is more difficult to erode the working habits and assumptions of the service departments. Whilst he concedes there have been experiments with budget technology, these do not approach the synoptic, comprehensive activity of fully corporate and rational processes.

The most recent study of local budgeting, based on sixteen local authorities, provides a further refinement of incrementalist theory. Elcock, Jordan and Midwinter (1989) challenge the assumption that incrementalism is based on equal shares. Wildavsky's own notion of fair shares did not imply equal shares as his interpreters suggest, and political bargaining and negotiation can lead to deliberate political choice, not simply the preference of the politically powerful. Rather, incremental choice whereby the base is

sacrosanct can still allow changes in line with policy preferences and political values. Citing the example of Birmingham City Council, they note Game's (1987) observation that there was no attempt at base budget analysis, but the allocation of growth was not mechanical – certain priorities were protected. They go on to argue that the distinction between incrementalism and rationality is running out of steam, and note that even proponents of rationality accept its impracticality. It is seen as being so technically complex and information hungry as to be totally impractical as a basis for public policy-making (Leach, 1982).

Rationality need not be comprehensive, indeed, selective rationality is to be preferred. Incrementalists are not against analysis *per se*, only synoptic comprehensive analysis. Lindblom is supportive of analysis in the context of a limited range of options, which is in effect an 'informal and thoughtful choice of methods of problem simplification'. The debate about rationality is important to understand the persistent belief in a 'better way', but it has had little impact on the budgetary process. Attempts to link policy analysis with revenue allocation have ignored the existence of considerable pressure on time and the sheer effort required just to comply with the budgetary timetable. As one experienced practitioner (Hepworth, 1984) has observed, budget time is not the time to make major policy decisions in local government.

STRUCTURES, ROLES AND RELATIONSHIPS

If budgets tend to be made through incremental approaches which concentrate choice at the margins, what effect does that have on budgetary behaviour? To consider this issue, we describe the organisation of the budget, identify the key actors and the roles that they play, and examine the nature of the interaction between them.

The structure of local budgets reflects directly the development of local services and the organisational arrangements for planning and controlling them. Prior to reorganisation, the form of management and organisation was established through the piecemeal development of local services and the professionalisation of administration, resulting in a system where departments had their own specialist function and supervising committee in the council's decision-making structure, and thus a fragmented system of loyalties and values.

Each department has a budget, which it obtains through a process of service committee approval, and usually revision or adjustment by the central finance or policy resources committee of the council. In the department, professionals make proposals for service development, which are converted

into financial terms through discussion with finance officials. Negotiations are a key element of budget construction.

In traditional budgetary systems, departments prepared estimates which merely indicated the object of expenditure rather than the purpose. That is, budgets provided information on staffing costs, energy costs, and so on. They possibly did not even distinguish between existing and new expenditure. When the estimates were completed and collated, the finance director would interpret the resource and rating implications of the proposals, and then a process of refining would be undergone until an acceptable level of spending and taxation was reached. These were the key political decisions in an era of growth.

In the post-reorganisation period, the budgetary environment has changed to one of retrenchment or fiscal stress. According to Greenwood (1981) fiscal stress involves 'increasing cost for existing levels of service provision coupled with a decline of available resources'. The resource squeeze has arisen from a combination of inflation, grant reductions, and an inelastic tax base, and this has resulted in a reordering of stages in the budget process, whereby some preliminary assessment of desired expenditure levels and taxes is made, some form of guidance on budgets is given to departments, and the budget priorities for the council as a whole are determined.

A strengthening of the advisory capacity at the centre of the authority has also been experienced. In pre-reorganisation authorities, the pivotal figure in the system was the chief financial officer. The nuances of this system were well captured by Danziger, who argued that;

most of the information for budget-making is generated, processed and transmitted by two units. On the one side, the Chief Officer and his staff translate both the existing level of provision and the feasible and/or desirable expansions of services into financial terms. On the other side, the Borough Treasurer's staff predicts available revenue and analyses the revenue implications of the spending departments requests. (Danziger, 1978a, p. 167)

Danziger argues that a key characteristic of traditional systems is that negotiations occur on a bilateral basis between spending departments and the finance department. Negotiations are insulated and conflict minimised. This results in unwritten norms of behaviour or 'rules of the game', a key feature of which is the absence of inter-departmental criticism, achieved with stabilised role relationships, and a pattern of mutual expectations between actors. Spending department professionals present the best case they can for their proposals, and seek to justify them as reasonable and necessary. These negotiations centre around the battle for the margins. Rosenberg argues that these margins are of importance both symbolically in terms of professional

reputation, and in terms of policy change. He sees the negotiations in part as a form of ritual:

A mimicry of conflict is part and parcel of the budgetary process as contests between bids by different agents appear and disappear from the agenda. The high degree of institutioned formalism, and the 'customs' associated with it produce the mechanisms that transform the conflict into a resolvable one. The agents are symbolically seen to be representing a diversity of interests and values. To gain organisational legitimacy from peers and subordinates, they must give more than an adequate performance of 'fighting for their corner'. Blood is shed indeed and often, but as it falls, it fails to permanently damage the tasteful carpets, as frequently it is transformed into removable tomato sauce by a mysterious alchemy. The agents talk the same language, a language of service values, priorities, and this language unites as well as divides. The budget 'war' is also then understood as a 'game' by these agents, sometimes an unfair game and rough, but a game for all that ... (Rosenberg, 1988, p. 58)

It was concern for departmental interests and the unwanted consequences of it in terms of the lack of service co-ordination which stimulated the drive for corporate planning in the 1970s. The Paterson Report of 1973 recorded many examples of such problems. It recommended new organisational structures, with a chief executive as chief policy adviser to the council, and an executive office comprising chief executive and the directors of administration and finance, the establishment of a management team to provide a forum for discussion of corporate issues, and a rationalisation of departmental and committee structures through amalgamation of like or related services on a *programme-area* basis. It also recommended a more systematic approach to decision-making, with particular emphasis on 'improved' budgeting processes. The most severe critic of these proposals has been John Dearlove, who assumed on the basis of secondary sources that what was being sought was a power-free, hierarchical rational comprehensive approach to decision-making (Dearlove, 1979). Empirical research in Scotland, however, shows that a more limited political reform was proposed with an emphasis on selectivity and gradualism rather than comprehensive rationality. Indeed, the Paterson Report explicitly rejected PPSs as the way ahead (Midwinter, 1982b).

The Scottish response has been to impose new corporate structures upon a largely traditional organisation. Some authorities have evolved a more rigorous system of budgeting from one in which bids from departments are revised by the finance committee on financial rather than policy grounds, to a system of centrally imposed financial guidelines and budgetary priorities from evaluation of budgetary options.

What is beginning to emerge, therefore, is a picture of budgetary behav-

ious within a system of organisational politics, whose functioning has been influenced by management reform. Corporate planning can lead to the development of more explicit political criteria for evaluation rather than bureaucratic criteria. That is, it may assist the definition of broad budget priorities which meet political aspirations rather than corporate bureaucrats, as committees commit themselves to defend or enhance particular services, client groups, or geographic areas (e.g. Areas of Priority Treatment in Strathclyde). These provide a means for evaluating budget bids which recognise that no objective basis of comparison exists, and the development of budget strategies limits the scope for maximising tactics by entrepreneurial service directors.

Bargaining politics remains a central feature of the political process. However, we think it important to stress that political conflict is not pervasive, otherwise services would fail to be delivered. Rather it occurs when *change* is proposed which threatens existing allocations and relations. The expectation of heightened inter-departmental conflict (Rosenberg, 1988) has not materialised, as budgetary systems remain ordered to regulate conflict, through bilateral negotiations. In our research, we have found only one example of an officer (a chief constable) openly questioning spending on other services as being of lower priority than his own. This won him few friends, a private rap on the knuckles, and no extra money!

Within the budgetary process, therefore, the role of the *professional chief officer* remains that of spending advocate, whether for growth or in defence of existing programmes. What has changed is that this role is now played in a more controlled form of incrementalism. Almost all recent studies point to the need for political skills. The basis of the professional chief officer's role is the control of information and monopoly of expertise. It is now accepted that in most cases professionals shape the choices and councillors take them. Departments provide the information on which budget decisions are made, such as staffing levels, buildings, client need, and so on. Some critics interpret this as giving undue influence to professionals in the process. They see it as permitting almost manipulation of the process (Glennister, 1981). We do not dispute that such tactics were commonplace in the early 1980s. What we would say, however, is that they did *not* prevent real budget reductions at that time, and that it was only after several years of fiscal stress that councils in general adopted less aggressive stances on savings.

The presentation of options allows the service director to use his or her professional expertise to discuss, and argue against, such cuts. Cryptic comments on the implications of cuts are commonplace. Options which will have a seriously damaging effect on the service, or even fail to meet statutory obligations, are offered to councillors. Councillors do not always meekly accept such advice, and may vigorously reject it. We learned of one case

where the professional advice was treated with disbelief, and all departments were instructed to save 2 per cent without affecting service levels as a result. This was so successful that a further 1 per cent reduction was imposed the following year.

It is clear that the scope for and nature of bureaucratic politics has been modified over the 1980s. Departmental chief officers do use 'up front' tactics, and the first target may be the chairman and the committee. For example, one service director issued instructions that every complaint about his service, which appeared in the press, should be photocopied and sent to every member of his committee, the rationale being that if they know how 'bad' the existing service was, they would not want to cut 'his resources' any further! (Midwinter, 1984a). In Parry's study of bureaucratic strategies for coping with cutbacks in Lothian Region, for instance, the social work department sought to 'educate a wide constituency to the effect of the cuts' (Parry, 1984). One police chief took the extraordinary step of publishing his annual report three months early (that is, just before the budget) to make members aware of rising crime and the dangers of reducing resources. Strathclyde Region's director of social work, in an authority faced with declining rate support grant for demographic reasons, called for organisations involved in the care of the mentally ill to 'throw shopping lists' of their needs at his department. Unless the groups trying to meet the needs of the mentally ill 'forced themselves on to the people who have the power to influence the allocation of resources', inadequate care would result (Midwinter, 1984a).

Dealing with cuts is a learning process. Councillors begin to identify and categorise chief officers as 'empire builders' or 'good managers'. Too openly aggressive bidding may not succeed. As retrenchment eased, and tactics became recognisable, the pattern of the game became less public, less sensational. A recent study of Stirling District Council saw the emergence of a strong central group as reducing the scope for politicking.

it is often said that in local government officers engage in various forms of budget tactics to defend or enhance their service. The Budget Strategy Group inquisitorial style was clearly intended to prevent and identify any such manoeuvres. In our observations of the BSG only rarely did anything which might be interpreted as politics emerge. (Charlton and Martlew 1987, p. 190)

In another study, Dyer and Sewel (1987) argued that in Banff and Buchan District, the value of retrenchment was so widespread that it deterred service directors from expansionist bids. Such studies, however, were over a particular budget cycle. Directors can read the political climate, and will bid up if the budget context and strategy is favourable, which is, as we will show, how they acted on the introduction of the community charge.

The second group of key actors we want to look at more closely is what Danziger called the 'budgetary elite' (Danziger, 1978a). These comprise in the main, the chief executive and the director of finance, although as central government rapidly changed the legislative basis of local finance, increasingly also the director of administration. In some extreme cases, such officers have had to place on record their concerns about budgetary action. More often, they are seen as advisers who can assist in the achievement of political objectives whilst ensuring that fiduciary duty is met, and indeed surcharge avoided. Rosenberg (1988) argues that the new formal and informal rules of the post-reorganisation period strengthened the control roles of the treasurer and chief executive at the expense of service directors. Moreover:

These two roles, especially the treasurership role, can be of extreme importance in the choice of an apparent neutral technology of budgeting The influence over the apparently neutral choice of budget technology also allows a treasurer to steer resource allocation politics away from an open clash for diminishing resources between spending departments. (Rosenberg, 1988, p. 105)

Whilst the development of corporate ideology may have strengthened the role of the chief executive, the treasurer's role in budget strategy has been enhanced by retrenchment and the infrequent changing of budgetary rules. The restructuring of the stages in local budgetary processes and the concern to develop strategic guidance in spending and departmental allocation was a key observation in the Public Administration Committee (PAC) study (Elcock and Jordan, 1987). The assessment of future resource availability and the imposition of that assessment as a limit on estimates falls largely on the treasurer, the chief executive officer, and a few leading politicians.

Budgetary elites were observed in each of the three Scottish authorities in the PAC study. In Tayside, this was in the form of a 'Magnificent Seven', composed of the convenors and vice convenors of P & R and finance, the chief executive and the director of finance and his senior deputy. Berridge and Clark (1987) felt they were behind every major decision in the revenue budget, for between them, these officers and members (or political administrators in Heclo and Wildavsky's (1974) terms) combined the professional, financial, legal and administrative skills with political nous. Their interventions were not regarded as unfair, with proper care taken to distinguish between administrative and political roles. The three officers translated the decisions into formal procedures and persuaded service directors to administer the consequences of the resource rationing decisions.

Dyer and Sewel's (1987) study of Banff and Buchan District, an

Independent council, is distinctive because of the primacy of the treasurer's role. They note that Banff and Buchan quickly dispensed with the trappings of corporate management, and that co-ordination was achieved through the dominant value of retrenchment. This also permits an influential role for the finance chairman, who was seen as 'articulate, able and fully committed to the objective of exerting the strongest possible control over expenditure' (p. 172). The task of producing the budget lies mostly with the director of finance, who understands the local political culture and anticipates political reactions. Dyer and Sewel also found a budgetary elite in the form of the director of finance and the 'Big Three' – the convenor, the vice-convenor of the council and the finance chairman.

Charlton and Martlew (1987) examined Stirling District Council, which is widely regarded as 'New Left'. The budgetary elite was the Budget Strategy Group, composed of the chairman of policy and finance, the majority group leader, the council convenor, and the leader of the opposition, serviced by the chief executive and director of finance. They were involved in the setting of guidelines and the appraisal of bids from departments.

We would argue that such arrangements are commonplace in Scottish local government. Whether it is Glasgow's 'Gang of Three' (McFadden, 1989) or Tayside's 'Magnificent Seven', budgetary elites at the officer and political level play key strategic roles in the budgetary process. In some instances, this will be formalised in the council's structure, such as in Highland's Budget Strategy Group, whilst elsewhere, as in Strathclyde, the elite may be more informal.

It could be argued that such arrangements give too much 'power' to officers. Our view is that the informal interaction between political leaders and senior professionals, and also the party group or other councillors in the case of non-partisan councils, serves to set parameters which both limit and direct the budgetary process. Councillors are aware of the ways in which information and expertise can be used in budgeting (Newton, 1976). We would be less pessimistic about the interplay between democratic politics and budgets than writers such as Danziger. In his study, he argued that officers had a dominant role, 'guiding' members to decision:

The bind is that the normative model gives the elected members rather than the appointed officials the responsibility for choice making. At most, the norms of responsibility in budget making imply that there is a conscious selection among alternatives on the basis of policy preferences by elected members of Council. Minimally, responsibility means that the elected members are publicly accountable for resource-allocation decisions. A moderate and reasonable view of responsibility is the expectations that these decisions will be undertaken on criteria that are

predominantly policy oriented and that those who take these decisions are visible and, in that sense, publicly accountable. (Danziger, 1978a, p. 199) This study was in the pre-reorganisation era, and itself implies 'normative' criteria in its concern for a policy orientation. We think this is a little abstract, whilst in councils there may be broad statements of policy intent, there is nothing invisible about the decisions which are taken, particularly if budgets are being cut.

The research programme for the Widdicombe Committee showed a high level of satisfaction amongst councillors with officer advice. Most studies show that 'policy' is not made in the budget process, rather budgets are adjusted in line with policy. Most councils now operate within a simple framework of broad political guidance, and councillors are not merely 'rubber stamps' in the face of professional power and the committee system. Whilst the role of party groups is marginal in the mechanics of the process, it is important for determining the political values which permeate the process. The key budgetary decisions, on the size of the cake and the priorities within it, are ultimately judgements about political acceptability. Councils have been more politicised in recent years (Widdicombe, 1986). Moreover, councillors and party groups have a representative role to play and in the budget process this will often be acted out informally and in private. Councillors do not always meekly accept officer advice. Even means of finance, such as judgements on inflation or tax yield, are no longer left to the officers (Midwinter, 1990). If the policy content of budgeting is minimal, perhaps that is because budgetary change remains marginal. In resolving the conflict at the margins, however, political choice will be permanent, whether in determining priorities or rejecting proposals. Our evidence suggests that politicians have increased their involvement in base budget reviews and in budget strategy (Midwinter, 1988). The reality of political control is often challenged by academics because it does not conform to some normative model of the democratic process.

The Conservative Agenda

THE NEW CONSERVATISM

The election of the Thatcher Government in 1979 has often been presented as a watershed in political development, because of its challenge to the perceived established political consensus on the role of the state. It was opposed to big government for its effect on individual freedom and its propensity to waste and inefficiency. Thatcher herself has been accredited with the formation of a coherent political doctrine known as Thatcherism. Biddiss (1987) argues that whilst Thatcherism is not a rigorously systematised ideology, it can be usefully deployed as a term to denote a certain set of values and leadership style, in a commitment to rolling back the state. According to Kavanagh and Seldon (1989), the Thatcher Government was widely regarded as radical and reforming to coherent purpose, whilst Crewe (1989) saw Thatcher herself as possessing a coherent set of principles which shaped her views on specific matters. Contrastingly, Hahn (1988) saw Thatcher as possessing no systematic economic thought.

Politicians tend not to have strong theoretical orientations, preferring rather to utilise theories which support their predispositions to certain policy preferences. Thatcher and her Government were regarded as 'New Right', and the theoretical basis of New Right politics is a combination of three aspects of economic analysis.

Economic liberalism – which argues from first principles that markets provide the most efficient mechanism for individuals to maximise their welfare; *monetarism* – which argues that government control of the money supply is the key to controlling inflation; and *public choice* – which applies economic concepts to the analysis of politics and bureaucracy. The normative predisposition of most adherents to such theories is that of reducing the scope of government, to create incentives and stimulate enterprise. In policy terms this translates into a fundamental concern with public spending, taxation and borrowing, and the economic efficiency of public services.

Leading intellectuals of the Right, such as Hayek, Friedman and Niskanen, developed their reasoning into normative arguments for curbing

the growth of the state and for changing the nature of democratic government. These ideas have been translated into more polemical terms in the advocacy of privatisation, contracting out of public services, and greater use of fees and charges to finance public services (Seldon, 1977; Pirie, 1988). Local government in particular is seen as being ripe for reform (Walker, 1983; Henney, 1984).

In our view, it is wrong to apply the tag 'New Right' to the Thatcher Government in its entirety, as the administration contained several profound sceptics of such economic fundamentalism (Pliatsky, 1982). We remain unconvinced that such ideas should be termed 'Thatcherite'. Nigel Lawson (1980), for example, denies that the central tenets of 'the New Conservatism' are in any way a break with the Conservative values of the past, but are rather a reflection of experience and part of a pragmatic approach to government by concentrating on factors which the government can control (money supply, budgets, tax levels) and ignoring beliefs that it can stimulate economic growth. There is some justification for this view. Deakin has observed that both Left and Right in Britain have always been reluctant supporters of the Keynesian consensus, and that for the Conservatives in particular it was a 'grumbling acquiescence'. Far from there being 'a collection of beliefs, undifferentiated and universally held', the reality was 'coincidence rather than conjunction of view' (Deakin, 1987, p. 62).

Much of the traditional ideas of Conservatism which Blake focused on in his study of the party from Peel to Churchill are still recognisable as Conservative values today, including distrust of centralising officialdom, the efficiency of government, and Utopian panaceas of abstract ideas (Blake, 1970).

In the rhetoric of the political New Right, however, the notion of a break with consensus politics is commonplace, and the issues translate into populist terms. The need for a greater emphasis on market provision has been a consistent feature of Conservative philosophy. Monetarism, however, is associated with New Right. Bulpitt argues that it was and is a 'modest little economic theory' which became a 'superb (or lethal) piece of statecraft' which took decisions out of the political arena (Bulpitt, 1985, p. 175). In practice it became 'moral force monetarism' with its emphasis on cutting public expenditure, government borrowing and hence inflation.

We recognise that there are problems in applying ideological/theoretical concepts to policy in practice, and in particular would agree with Bulpitt's rejoinder that any attempt to generalise about the combined operations of a group of politicians in office will involve drawing coherence out of a mass of complex, *ad hoc* or conflicting activities. Our concern as researchers, however, is not with the ideological consistency of the Government's approach,

but with the impact. Concepts and ideas are important facets of the context of decision-making, and in our view politicians do pursue particular values in the framing of public policy. We would also accept that they are concerned with 'statecraft' – the winning of elections (Bulpitt, 1985) – and thus political arguments and pragmatism combine in political decisions, including a concern for the implementability of policies. Part of the difficulty of capturing the link between theory and practice lies in the nature of economic theory. Fundamentally, it is a form of inductive reasoning, based on unrealistic assumptions about actual economic behaviour, which economists defend because of its utility in deriving predictions. Such theories treat a few variables as crucial and ignore others, as this allows them to predict the direction if not the scope of changing key variables (for example, price increases). It is not seeking to explain all human behaviour, only the economic relationship. Decision-making in the real world of government is complex, and consistency with the normative prescriptions the New Right have derived from economic theory is not always possible. In practice, the Thatcher Governments were a mixture of ideology and pragmatism, within the framework of a diagnosis of the limits to government:

The key issue is the failure of the state to keep within its proper limits. By encroaching on the market order and seeking to determine market outcomes the state destroys the delicate mechanism which maximises economic efficiency. By transferring private decisions into political ones which encourage group conflict and competition between the parties which generates excessive expectations in the electorate. By disbursing collective welfare payments and subsidies it makes citizens dependent on government and erodes personal responsibility. By expanding public services and public employment and by constantly 'crowding out' private investment, destroys incentives and becomes an ever-heavier unproductive burden on the wealth creating market sector. (Gamble, 1984, p. 27)

There are in essence two key elements of the Thatcher Government's strategy for local government finance – a concern for economy (reductions in local expenditure) and efficiency (value-for-money within local government). Where possible, government should be reduced and markets used to meet demands. Where public provision is necessary, there is need to ensure greater efficiency in the use of resources through market surrogates. Much of this flows from the emerging field of *public choice theory*, and in particular its critique of democracy and bureaucracy has been fastened onto by right-wing politicians (Forsyth 1980).

Nicholas Ridley (1973), for example, described Niskanen's work on bureaucracy of 'devastating importance' whilst Nigel Lawson draws on its arguments that public provision funded by taxation inevitably leads to

oversupply. These ideas fitted well with government rhetoric about local government being 'wasteful, profligate, irresponsible, unaccountable, luxurious and out-of-control' (Newton and Karran, 1985, p. 116). The public choice critique of budgetary behaviour is of particular relevance to our concerns, and worthy of greater exposition than the other elements of New Right thinking.

PUBLIC CHOICE THEORY

Mueller (1989) defines public choice as the economic study of non-market decision-making or simply the application of economics to political science. Its basic behavioural postulate is methodological individualism, in which rational political man is a utility maximiser. The political process is analogous to the economic process, and decisions occur in a political-market place in which voters, politicians and bureaucrats engage in maximising behaviour in the pursuit of their own self-interest. Voters seek to maximise their consumption of public goods at minimal costs, politicians to maximise votes, and bureaucrats to maximise budgets. The school public choice has been heavily influenced by American experience. It assumes the existence of a relatively non-ideological two-party system, competing around the centre ground or, in economists' language, around the preferences of the median voter.

The public choice approach is to develop a positive model of politics and bureaucracy. Whilst such a model recognises that other variables can be important, it requires economic motivation to be sufficiently pervasive to allow predictions. This predictive capacity is seen as being more important than the realism of its assumptions. It has become associated with the New Right through 'normative public choice' (Gibson, 1987) and the more recent works in the field have interpreted the consequences of such behaviour as an oversupply of public goods, resulting from the inadequacies of political systems in reflecting individual preferences.

The original application of such ideas was by Anthony Downs in *An Economic Theory of Democracy* (1957). Downs assumed that voters and politicians indulge in maximising behaviour, the former in pursuit of benefits from government, and the latter in pursuit of votes. He concluded that politicians achieve their goals (attaining office) by carrying out programmes which please voters. Governments which wish to maximise political support will carry out those acts of spending which gain most votes by those acts of financing which lose least votes. The consequence of such behaviour is ideological convergence in the political system, and politicians never seek office to carry out particular policies. They simply offer policies which

will help them gain office, from the rewards of income, prestige and power.

Downs extended this model to bureaucracy in his later work, *Inside Bureaucracy* (1967). He saw bureaucratic provision as necessary for collective goods and redistribution, and as an efficient way of carrying out 'non-market' functions. A similar analysis with a more pessimistic interpretation is provided by Gordon Tullock in *The Politics of Bureaucracy* (1967), in which he mixes deductive reasoning with introspection and casual observation. He argues: 'For a number of assertions that will be made in this book, the supporting evidence must be found in the mind of the reader' (Tullock, 1967, p. 15).

Despite his caveats about methodology, Tullock conveys the impression he is describing behaviour as in a behavioural model. Bureaucratic maximisers will regard success as bureaucratic growth, but as bureaucracies lack the capacity for co-ordination inherent in markets, or their tests of efficiency in the absence of prices and profits. The result is inefficiency (in the narrow economic sense) and he advocates greater use of cost-accounting techniques, small scale local government, and the reduction of the scope of government. Tullock's work lacks the careful theorising of other writers in the field, and as Goodin observed, he simply imposes some loose theoretical order on his personal experiences (Goodin, 1982).

In *Bureaucracy and Representative Government*, William Niskanen (1971) seeks to build on Tullock and Downs, but he sees the latter as stopping short of developing the consequences of maximising behaviour on budgets. He acknowledges that abstract economic reasoning supported by personal observations and casual evidence lacks the set of critical tests necessary to support the theory, but believes firmly that his behavioural hypothesis is consistent with his own experience.

Government operates through a single stage budget review and approval process. Bureaucrats can judge 'the going rate' and add a few percentage points to the budget bid to allow the ritual cutting. They have a monopoly of information and a 'passive sponsor' who does not know the minimum budget necessary to supply the service. This weakness of political control leads to oversupply, as bureaucrats strive to maximise the budgets to achieve salaries, perks, power and patronage.

Niskanen's model is a form of ritualised farce, in which mutual expectations dominate and the outcome is predictable – bids, cuts, approval and oversupply. He too concludes the need for reform – through competition, efficiency, privatisation, improved information and analysis, consumer choice through vouchers – and that a better government would be a smaller government.

From the summary of the main authorities, it is clear that the application

of economic analysis to politics does not generate common prescriptions. Most spectacularly, Downs differs considerably from Tullock and Niskanen in not believing that bureaucratic provision leads to oversupply through weaknesses in the democratic system. He does not share the normative thrust of the other writers despite sharing their behavioural assumptions. These assumptions have been subject to considerable criticism. Goodin, for example, argues that politicians do care about policies and pursue power to implement them (Goodin, 1982).

Jackson, however, defends the use of such models as they are positive, not behavioural, models which rest on their capacity to generate predictions (Jackson, 1984). This leads us to the second criticism, namely, problems of empirical testing relating to problems of measuring benefits and costs. McLean (1987) sees public choice theory as failing to support market provision over bureaucratic provision as the tests are not very reliable; whilst Kogan sees the concepts as difficult to operationalise: 'To maximise the difference between the total budget and the total cost assumes a measurability of product in areas where economists tend to make fools of themselves if they try to provide evaluative frameworks' (Kogan, 1973).

Finally, there is the concept of 'oversupply'. This is related to economic efficiency or Pareto optimality. Heald (1983) argues that Pareto optimality is often implied to be value-neutral in textbooks, yet it is only possible under conditions of perfect competition. It does seem strange to adopt criteria developed for individuals operating in markets as the basis for evaluating the output of collective provision. Indeed the policy objectives of many public programmes are to ensure greater consumption than would be achieved through markets. If markets require a process of exchange, then the analogy in public choice theory is a weak one, as public provision and consumption occur in the absence of markets.

If we remove the concept of 'oversupply' from the public choice framework, we are left with a fairly barren theory of budget-making, in which electors, interest groups, politicians and bureaucrats interact in a process of public resource allocation which inevitably leads to budgetary growth because of the weaknesses of political control mechanisms. The role of bureaucrats in the budgetary process is seen as the dominant one, because of control of the agenda and relevant information, and the capacity to fund budgetary growth relatively painlessly through deficit financing. It is a theory which 'washes politics out of the analysis' (Jackson, 1984).

In the hands of less sophisticated New Right authors, caution about the limitations of the method are thrown to the wind. The President of the Adam Smith Institute, for example, argues (wrongly) that the public choice theorists 'have shown that ... people behave in politics as they do in economic

activity and have established that there is a kind of market place for votes' (Pirie, 1988). Theoretical assumptions and arguments are treated as confirmed where little empirical confirmation exists.

CONSERVATIVE STRATEGY AND LOCAL GOVERNMENT

Thatcher's strong antipathy to local government is well known. However, a number of studies regard the strategy for local government as lacking a 'grand strategic plan' (Young, 1989) or a 'pre-determined philosophy' (Stoker, 1988). Our view is that whilst this is relatively accurate with regard to policy instruments for reforming local government finance, it is less true from the analysis of the inefficiency of local government. In many areas, developments are consistent with normative public choice, such as the promotion of user charges, competitive tendering, or the introduction of value-for-money techniques in the audit process. For much of the 1980s, the tone of the Conservative attack was contemptuous of the capacity of local government and its professional staff (Leach and Stoker, 1986, p. 99).

A useful statement of the Conservative analysis and principles for reform is contained in a pamphlet written by Nicholas Ridley for the Centre for Policy Studies (Ridley, 1988). In this, Ridley argues that the Conservatives have had two overriding objectives in relation to local government. Firstly, it was necessary to constrain the growth of local authority expenditure to stop it taking on an ever larger proportion of GDP; and secondly, to enhance service quality. This required a reduction of functions, greater competition in provision, and greater choice for consumers:

Competition is a spur to efficiency and value for money wherever it operates. Too much of the public sector has been insulated from it. The spread of competition in education, housing and other local services should do an enormous amount to improve standards of efficiency. (Ridley, 1988, p. 8)

Ridley firmly supported the introduction of the community charge as a means of promoting accountability, and in order to fulfil national economic objectives by exerting downward pressure on spending. He identifies scope for efficiency improvements in local government, stimulated by competition. He went on to argue for greater pluralism and diversity in education, housing, social work and transport and an enabling role:

The role of the local authority will no longer be that of the universal provider. But it will continue to have a key role in ensuring that there is adequate provision to meet needs, by grants and contracts to other service providers. (Ridley, 1988)

Competitive tendering, with proper standards and monitoring, would ensure

value-for-money, better than could political management of such services. Municipal monopoly provision was not the way to efficiency. Ridley concluded in terms which reflect a public choice critique.

We need members and officials who are not wedded to the power base of a large department; who do not believe that success is measured by the number of staff they employ and the amount of money they spend; who are not prisoners of any pressure groups; who are not over influenced by the unions or the pressure groups. (Ridley, 1988, p. 29)

In Ridley's view, this meant that the Conservative localist traditions needed reconsideration to follow the political line advocated by the Government. He felt the reforms of local government finance coupled with competition in service provision would 'shift the balance' of electoral consideration in favour of fiscal prudence. Such themes were prominent in government defence of their reforms. They were not centralist, but promoting the rights of the individual against the local bureaucracy, away from 'pork-barrel politics' (Ridley, 1988, p. 35).

In the remainder of this book, we will focus on four major areas of financial reform – the control system, the grant system, the tax system and the audit system. Competitive tendering as a reform has financial implications, but it is not strictly a financial change. Studies suggest that savings of around 10 per cent are possible (Walsh, 1989) but can result from cuts in earnings as well as efficiency savings. One recent study doubted whether the evidence for any objective financial evaluation would ever become available, and found no evidence of any general improvement in service quality (Kerley and Wynn, 1990).

A sound element of the efficiency strategy – charging for services – is a relatively straightforward one. Charges are seen as a way of promoting choice, efficiency and accountability. The main intellectual arguments for increased charging have come from economists. Foster, Jackman and Perlman (1980) argue that at one time there was a direct link between taxation and the benefits of provision, but this benefit principle has been eroded in the twentieth century. They argue that the extension of charging can lead to a more efficient use of resources and similar arguments were made by the Institute of Economic Affairs. Charging can make costs explicit, and can avoid excessive and unwanted provision and overconsumption of free/subsidised services.

In the 1980s, there has been more use of charging, particularly over the financing of council housing, but also in transport. Bailey (1986a) calculated that by 1984–85 the total income from sales, fees and charges was 15 per cent greater than the yield from domestic rates. In short, citizens become consumers whereby: 'The benefits of paying for service improvements by

increased charges would become more apparent since they would clearly put the extra cost on those who use the services' (Audit Commission, 1984). Similar arguments underpin the advocacy of the community charge as a means of taxation. In essence, both of these reforms reflect concern at the inefficiency of monopoly public provision financed by taxation.

Our interest, however, is in financial decision-making *per se*, and this is an area where in our view implementation of New Right reforms would be more problematic, and depend greatly on the realism of the diagnosis of the problem. Much research in the field of local government finance has an unduly narrow concern with the abstract concepts of economic efficiency. We are concerned with the 'policy efficiency' of the various reforms. Thus for each we adopt a policy analysis perspective, looking at the objectives of reform, assessing the new policy instruments, and evaluating their impact in practice. Our approach is therefore in stark contrast to the concerns of public choice economists. The success of government reforms, unlike economic theory, will depend on the accuracy of the assumptions, and the absence of intervening variables to distort the links it is seeking to enforce. Jackson has warned of the dangers of a narrow economic approach for real world policy-making. He argued that 'government policy-making needs to recognise that the world is a highly complex and uncertain place. Policies based upon simple axioms and maxims, therefore, run a high risk of resulting in catastrophe' (Jackson, 1984, p. 61).

Hogwood and Gunn (1984) see public policies as theories or models of cause and effect, and that it is the task of the policy analyst to examine the internal consistency of the underlying model and the validity of the assumptions. Put simply:

If we think of policy in terms of the simple 'if X then Y' theory, we can see that failure of a policy can arise either from the Government's failure to do X in full or because X fails to have the consequences expected according to the theory. In practice, the causal chains involved in policy as theory are normally much more complex. (p. 18)

They also argue that a clear and accurate theory of cause and effect is one of the essential preconditions for successful implementation. This is the approach we shall adopt in the ensuing four chapters.

The Control of Local Expenditure

THE LOCAL EXPENDITURE NETWORK

Prior to the reorganisation of local government in 1975, the fiscal environment was one of growth in expenditure and central grants, with the assumption that local authorities would themselves be the main mechanism of service delivery. This financial trend was interpreted as increasing central control, as local authorities became more dependent on central grants. The Wheatley Report concluded that this had a damaging effect on the independence and initiative of local authorities, whilst the Layfield Committee felt that the process of centralisation was even more marked in Scotland than in England and Wales.

These issues were addressed in a pioneering study by Edward Page (Page, 1978) which put the financial arguments into a political and administrative context. His thesis was that differences in structure and process could be expected to result in variations in output. In Scotland, the existence of a single government department with responsibility for local government, a single local authority association, and a small number of authorities with a pattern of Labour dominance in urban areas and Independent dominance in rural areas, were all factors seen to be important.

Page, however, was 'rehearsing' the arguments which had been made already in official reports. Layfield (1976) had noted that the Scottish Office has a detailed knowledge of local strategies, circumstances and resources. So too, did the Central Policy Review Staff (1977). Layfield identified three financial characteristics which pointed to greater central control:

- local government receives a greater proportion of its total expenditure from central funds than in England and Wales;
- the assessments for distributing funds left greater scope for influence by ministers than the formula based system in England;
- the level of capital expenditure in Scotland is higher and is subject to more stringent control than current expenditure.

We would argue that none of these points *demonstrates* that central control is greater. Firstly, the level of grant varies between Scottish authorities in

relation to their needs. If they have high spending needs but low resources, the government steps in as taxpayer and assists them to provide better services. We do not think such authorities object to this arrangement. As others have noted (Chester, 1951) the *form* of grant paid is important. It is not necessarily the level of grant which matters in the local decision-making process but rather changes in the level of grant. Increases in grant will generally stimulate expenditure, whilst decreases will lead to reductions, and some resource substitution in the form of increased local taxes. Thus prior to reorganisation, increases in grant sheltered ratepayers from the cost of expanding services (Layfield, 1976).

Secondly, whilst the Scottish approach to grant distribution has historically been more flexible than the English, alterations to indicators and the weights attached to them can alter outcomes of formula based allocations. Thus:

examination of the factors used to allocate grant in 1981–82 reveal that for an extensive array of services there are no factors or weightings entirely beyond dispute. Further, the choice of arbitrary weightings and factors could significantly affect the grant-related expenditure. (Greenwood, 1981, p. 24)

Similar points can be made about the capital expenditure controls. Historically, capital controls were in the form of loan sanctions for specific projects. These projects reflected local identification of need, although within a national context. Higher levels of spending in Scotland would be generally welcome to local authorities, who have consistently complained about the reductions in capital spending since 1976. The analysis of central control required more sophistication than has been shown in official reports, which concentrate on forms of influence rather than an exposition of their impact. Page's empirical analysis supports this. He examined the extent to which higher levels of grant resulted in closer control. Whilst he found a close correspondence between central plans and total spending, this was achieved despite greater variability of performance by authorities. He showed that the percentage of local expenditure financed by central government has only a small effect upon decisions to expand local expenditure but that grant *change* was important (Page, 1978, pp. 66–7).

The understandable focus on finance in central-local relations is made at the expense of a concern for legislation and policy. Whilst local authorities are 'dependent' on grant, this grant is only vaguely tied to expectations about spending and services. This approach fails to recognise the 'interdependence' (Rhodes, 1988) of central and local government. The Scottish Office and local authorities have shared responsibilities for local services, and share accountability to electors.

Understanding the dynamics of this relationship can be understood by deploying the concept of *expenditure network*, in which the key actors are Scottish Office ministers, senior local politicians, staff from the finance division and central research unit of the Scottish Office, and finance directors and chief executives of local authorities. These have been described as 'topocrats' – in contrast to the 'technocrats' who dominate the functionally based policy communities – that is the professionals for local government and officers of spending departments in central government.

Madgwick and James's (1980) description of the Welsh network is an apt one, equally applicable to Scotland prior to 1979. They saw the term network as implying a multiplexity of linkages, with a nodal point in the Welsh Office, with an emphasis on consultation rather than command or negotiation. Expenditure networks, however, lack the shared values of policy communities with their concern for specific services.

The interdependence reflects the existence of statutory obligations on both sides. The Secretary of State for Scotland has duties imposed on him *vis-à-vis* local government by Parliament. In some cases, these require a proactive concern with service development, such as education, whereas in others such as libraries, the duty is minimal (Midwinter and McVicar, 1992). Whilst much has been made of the distinctive administrative arrangements in Scotland (Kellas, 1989) our view is that the Scottish system is more distinctive for how it does things rather than for what it does.

As we noted earlier, local authorities are the spending mechanisms for a large part of the Scottish programme. This legislative and financial interest in their affairs means that any Scottish Secretary will closely supervise the actions of local authorities. Reforms which seek to clearly demonstrate the areas of responsibility of central and local government will be difficult to achieve. Moreover, as Rhodes has argued, the ambiguity and confusion over responsibility has advantages to both sides in terms of 'blaming' the other for policy failures or more local tax increases (Rhodes, 1981).

Arguments about the 'corporateness' of the Scottish Office in dealing with local authorities are sometimes made (Central Policy Review Staff, 1977). We would not deny that in terms of political structure, such potential appears plausible. However, fully blown corporate planning assumes a flexibility of response which the Scottish Secretary does not have. He is a minister of the British Government, with a place in Cabinet, but a relatively junior one. As such, he is tied to the conventions of British government which require policy conformity in all major aspects of public policy. As Kellas observed, 'a Conservative Secretary of State tries to shape Conservative policies for Scottish consumption' (Kellas, 1989, p. 28) and his office is engaged most of the time in the humdrum business of implementing policies

decided elsewhere (Kellas and Madgwick, 1982, p. 29). Resources under the control of the Scottish Secretary are determined by a formula which links increases or decreases in Scottish programmes to the comparable programmes in England and Wales. The Secretary of State does have budgetary flexibility within the resultant totals, but if expenditure is policy driven, then that is only useful at the margins of expenditure. For example, Conservative commitments to increase spending on police and reduce it on housing were implemented throughout the United Kingdom. The budgetary flexibility therefore is most useful for dealing with exceptional needs or problems which do not have implications for government strategy elsewhere in Britain. This proved useful, for example, in reallocating resources from capital programmes to permit temporary subsidies to ratepayers adversely affected by Scottish rating revaluation.

The Scottish Office itself is divided into five separate departments with a central services group for personnel and finance. Three of these departments, Development, Education, and Home and Health, have responsibilities for local authority services, whilst the finance division handles local government finance, as this must be integrated to the public expenditure planning process as a whole. Several authors have observed that the Scottish Office has a dual role to play, in advancing Scottish interests within the Cabinet and representing government strategy in Scotland (Stoker, 1988; Rhodes, 1988). Thus bargaining with the Treasury and internally over its spending programmes inevitably results in departmentalism within the Scottish Office where each junior minister has functional responsibilities.

Interface with local authorities over financial planning is achieved through the Working Party on Local Government Finance, with committees which deal with capital and current expenditure and grant distribution matters. The Working Party is chaired by the Secretary of State and local authorities are led by the President of the Convention of Scottish Local Authorities. Local authorities have a shared interest in maximising the expenditure totals, but diverse interests in their distribution. Many of the arguments aired in this forum will be used by the Scottish Office within the Whitehall network. Relations between the Scottish Office and COSLA have been strained in the 1980s. Whereas the talk in the 1970s was of 'partnership', the two sides now appear locked in perennial conflict. In part, this reflects the Government's stated objectives of breaking with the post-war social democratic consensus (Foster, 1984) which has resulted in a conflict over values as well as expenditure. In 1985, COSLA only narrowly voted against ending all relations with the Scottish Office (Widdicombe, 1986). COSLA itself has been troubled by divisions in the past, but that divide was mainly an urban-rural one rather than a partisan one. Indeed, the

Conservatives held the Presidency in 1980–81 and took a local government line against the Government of that period.

In the late 1970s, when the Callaghan Government was seeking spending reductions, the Conservatives controlled two regions and several district councils. Since 1980, Labour has increased its dominance of local government and therefore COSLA. This allowed the Government to dismiss COSLA as a Labour-dominated body and led to COSLA creating a new post of junior vice-president which is held by an Independent.

In Scotland, therefore, the framework of central-local relations is simpler and more informal than in England, with a greater potential for corporate working. Often, this provides for shared interests *vis-à-vis* Whitehall. Goldsmith (1986) observed a greater sense of trust and understanding in peripheral networks. Conclusions about the impact of this should not be overdrawn. In the 1980s, the Thatcher government invoked its rights to control local spending on the grounds that authorities had always complied in the past. In fact, they had not, or at least, not with the degree of compliance sought by the Government and Labour had cut grants in 1976 because of overspending (Midwinter, 1984a). Prior to 1976, the Government satisfied itself with being broadly able to influence the direction of spending. Since then, concern has moved overtly in the direction of greater control, although not always without unseen and uncertain consequences.

CONSTRAINING CURRENT SPENDING

In the early days of the Thatcher Government, Scottish Secretary, George Younger, adopted a more conciliatory line than his English colleagues, describing Scottish local authorities as 'highly responsible' with a 'duty to their electors as I have to mine' (Midwinter, 1984a, p. 20). Local government expenditure, however, was a prime target for savings, given the manifesto commitments to expand expenditure on defence and law and order, whilst maintaining it on health and social security. Together, these accounted for around half of all public expenditure. If savings were to be made, then local spending accounted for most of what was left of public spending.

The arrival of the New Right in central government was matched by the emergence of a 'New Left' in local government. This was particularly marked in Lothian Region – an area which contained a large proportion of Scottish Conservative MPs – after the 1978 local election. These were younger, more assertive councillors (Widdicombe, 1986) with an ideological commitment to defend public expenditure, and as Elliot and McCrone (1982) note, their symbolic language and slogans were historical legacies of local class conflict.

Local spending was already 3 per cent above government plans, and the 1979 cut in Rate Support Grant of around 2 per cent was met with opposition from local government, and advice from the Labour Opposition to 'put it on the rates'. The subsequent rates increases, due to inflation as well as rate substitution for grant reductions, were particularly high in Lothian at over 40 per cent. This resulted in government concern for current expenditure levels and the political significance of rates increases. As Boyne shrewdly observed, 'The major new circumstance since 1979 has been the outbreak of central rather than local hysteria about rates' (Boyne, 1987, p. 428).

In the first two terms of office no fewer than forty pieces of legislation were passed by the Government concerning local government. Although the details of the mechanisms have differed north and south of the border, the main features of the policy are similar:

- a new approach to grant distribution;
- the use of grant penalties for overspending;
- rate-capping powers in cases of 'excessive and unreasonable expenditure';
- general reserve powers of rate limitation.

Such changes were justified on the basis of the need to control overspending. However, as we argued earlier, Treasury concern is for the total of council expenditure, not its composition, and given its control over capital, the concentration on revenue overspending is difficult to square with its arguments about macro-economic policy. The emergence of a New Left in local government, however, ideologically committed to opposing the Government over spending cuts, helped create a new target. It allowed Government to argue that the problem was being caused by a minority of councils, mainly under left-wing Labour control.

Revenue expenditure is important to government because of its rating implications. It is financed from income raised from fees and charges, grants, and local taxes. It may be recurring, in the form of wages and salaries, and its benefits may be short term, even instantaneous. Revenue expenditure covers the daily running costs of local services, including wages and salaries, heating, lighting, cleaning and repair to council properties, and the loan charges from capital expenditure financed by borrowing.

In this section, we examine the impact of the new policy instruments. Firstly, the Government made considerable use of the traditional practice of *reducing grants*. Table 3.1 shows this was a sustained policy, which was intended to achieve expenditure restraints through local pressure over rates. Secondly, the government made use of grant penalties for 'overspending' against its guidelines. That is, authorities which overspent suffered reductions in grant as a result. The issuing of a current expenditure guideline for

*Table 3.1: Government Grants as a Percentage of Relevant Expenditure **

	%
1979-80	68.5
1980-81	68.5
1981-82	66.7
1982-83	64.2
1983-84	61.7
1984-85	60.2
1985-86	57.7
1986-87	56.1
1987-88	55.5
1988-89	52.2

* Relevant for grant purposes

each authority was introduced in 1976-77, and these translated the Government's expenditure provision into indicative figures for each authority's share of the total. The method of calculation changed constantly, and guidelines have been based on historic budgets, outturn spending, respective shares of the needs elements of the Rates Support Grant, and the needs assessments with stability adjustments.

In 1984-85, for example, authorities with past levels of expenditure within their needs assessments received a cash increase of 4.25 per cent in their 1985-86 guideline which would allow them to fix standstill budgets. The Government, however, suggested that authorities who spent in excess of their assessments should reduce their spending, and those furthest above received a guideline 1.5 per cent less than their existing budget. This implied that the Government was getting tough with overspenders, but in practice, it was accommodating them.

Edinburgh District Council, for example, spent at 12 per cent above its guideline in 1984/5, and thus received a guideline increase of 10.5 per cent, in contrast to the 4.5 per cent average. The following year, 1985/6, the Government changed the method again, and this permitted real growth in some areas, and real reductions in others.

Over the period 1979-80 to 1988-90, current expenditure guidelines have been volatile and unstable, and poor guides to authorities. Prior to 1983, it was fair to conclude that guidelines had little real impact on spending levels. The linking of grant penalties to overspending, however, led to a narrowing of the gap between central plans and local budgets, as the majority of councils budgeted at or near their guidelines to minimise and avoid penalties. The Government assisted this by giving more realistic and acceptable guidelines, and concentrated overspending and penalties on fewer authorities. In 1986-7, Lothian and Strathclyde Regions together accounted for above 80 per cent of overspending, and for 70 per cent in 1987-88. The degree of excess overall declined from 4.7 per cent in 1983-84 to 3.2 per cent in 1985-86, thereafter it rose marginally again to 3.7 per cent in 1987-88.

Thirdly, the Government introduced *capping* powers, that is limits to expenditure in certain cases. Such powers were the subject of considerable dispute as they allowed the Government to override the decisions of democratically elected councils. The Government defended their case as they were concerned only with a minority of councils.

The identification of councils as 'overspenders' depended upon their own spending decisions, their guideline, and the level of rates increase. The ratercapping powers are drawn particularly wide leaving considerable scope for interpretation by the Secretary of State. The legislation provided that in determining whether the budget plans of a local authority were excessive and unreasonable, the Secretary of State may have regard to the following:

- expenditure or estimated expenses, in that or a preceding year, of other local authorities which the Secretary of State was satisfied were closely comparable (or as closely comparable as was practicable) with the local authority concerned;
- general economic conditions;
- such other financial, economic, demographic, geographical and like criteria as the Secretary of State considered appropriate.

In practice, these criteria were:

- comparison of an authority's planned expenditure with its assessed expenditure need;
- comparison of an authority's planned expenditure per head against that of comparable authorities;
- comparison of the trend in the expenditure of an authority against the Government's expenditure plans;
- the rating effects of an authority's expenditure decisions;
- the structure and movement of the population in an authority's area.

The procedure for such capping controls was straightforward. The Scottish Secretary notified the affected authority that he considered its estimated expenditure to be 'excessive and unreasonable' and the level of tax cut he proposed. Authorities then have a month to make representations, or accept his proposals. If representations were made, the Scottish Secretary would amend his proposals, but in the absence of agreement with the council, the two cases are presented to Parliament for authority to reduce the level of rate.

The criteria used in the process have been widely criticised. Firstly, the use of current expenditure guidelines, which have been presented as indicative and which assumed some authorities would exceed them and others underspend, for purposes of expenditure control, was regarded by local authorities as illegitimate. Lothian, the most regularly capped Scottish council, put forward, in their representations, the following argument: 'The fundamental flaw in the system of guidelines is that it uses as a starting point

a total of expenditure determined arbitrarily, which is then subjected to a statistical process of dubious validity'.

Stirling District, another council capped several times, argued in similar terms:

Whilst it has long been recognised that the distribution of grant requires some measure of relative need, the notion of providing precise spending targets for individual authorities is of very recent origin. A brief study of the intellectual and statistical gymnastics required to produce such 'measures' in both England and Scotland reveals the nonsense of attempting any such feat. Statistical measures cannot be used to define local needs: these can only be determined through the mechanisms of local democracy which seek to balance local needs against local resources. It must be recognised that the introduction of this approach to central intervention in local affairs, i.e. government by arithmetic, has generated a bureaucratic industry which is engaging considerable resources in the hopeless search for a precise method of quantifying local requirements!!

Secondly, the case of 'comparator authorities' was also treated with some disdain by local authorities. Sewel and Young (1981) argued that the comparisons were dubious, and not subjected to statistical tests. The case against Lothian suggested that five of the nine Scottish regions were comparable. An examination of the indicators used for needs assessment purposes shows that few authorities were in fact comparable. Lothian was compared with Central, Fife, Grampian and Tayside, whose scores on such indicators varied considerably from it. Similar results emerge when we look at Stirling's comparators, who were compared to *ten* different authorities in three consecutive years (Midwinter, 1984a). The wide range of indicators for authorities contained in Table 3.2 highlights the problem of comparability.

The application of such criteria has, with one exception (Shetland) resulted in capping only Labour councils, whilst several Independent councils were greater overspenders (Midwinter, Keating and Taylor, 1983). Glasgow was capped because of a £4 million error in the calculations (Hepworth, 1984). The arbitrariness seems also to apply to the case of Shetland. At one time 79 per cent over government guidelines, Shetland was finally subjected to rate-capping when 42 per cent over guidelines, but action was withdrawn after negotiations recognised Shetland as a 'special case' because of oil developments.

The arbitrary use of powers notwithstanding, the key lesson from their use is that overspending was not a minority problem. Savings from the use of ratecapping powers were around £30 million per annum, about 20 per cent of the annual overspend and a mere 1.5 per cent of local spending in total. Capping was a minority experience for councils, seven in total. In short,

Table 3.2: Need Indicators Used for Grant Distribution

	Settlement Pattern	Income Support/ 1000	Average % School Roll Decline	Low Income Pensioners	Area Deprivation	Traffic Estimates
Borders	70.80	37.34	8.27	32.56	2.70	53.50
Central	26.80	65.29	8.92	47.85	14.30	159.16
Dumfries	70.30	53.20	9.03	32.50	6.40	32.57
Fife	46.70	61.13	8.00	40.06	11.10	159.20
Grampian	49.30	43.56	8.87	34.74	4.20	71.45
Highland	73.20	68.36	7.50	32.36	5.50	38.64
Lothian	22.40	72.55	11.91	41.36	14.30	231.47
Strathclyde	17.10	102.27	11.06	55.40	31.50	116.92
Tayside	31.30	74.13	9.09	40.60	16.70	108.05

Source: Derived from the work of the Distribution Committee, Joint Working Party on Local Government Finance

DEFINITION OF INDICATORS

SETTLEMENT PATTERN

% of an authority's population living in settlements smaller than 10,000 population. A settlement is a continuously built-up area that is at least 1km distant from any other built up area.

INCOME SUPPORT RECIPIENTS

Recipients of Income Support per 1000 population under 65 years.

SCHOOL ROLL DECLINE

The average of the fall in roll of EA schools calculated as a % of the total roll of EA schools.

LOW INCOME PENSIONS

Pensioner Recipients of Income Support Benefits plus pensioner recipients of rent rebates or rent allowances as % of population aged 65 and over.

AREA DEPRIVATION

% of census enumeration districts which fall into the worst 20% of enumeration districts in Scotland according to their score on 12 indicators of deprivation.

TRAFFIC ESTIMATES

Estimates of all traffic on principal class roads per km of LA unweighted road lanes.

overspending was a more widespread phenomenon than Government rhetoric recognised.

Finally, we can examine the changing pattern of local finance as indicated in Table 3.3. A constant theme of the Government was that high spending was leading to high rates increases. The evidence shows that tax changes are more closely linked to changes in the *price* of local services (that is, inflation) than to changes in the *level* of local services (that is, volume). In fact, volume spending remained broadly stable over the period (+0.67 per cent) with substantial reductions in the year of revaluation. The fall in grant added some £700 million to local taxes, or 35 per cent. Given the standstill in volume terms, these increases were the combined result of inflation and cuts in grants, as councils increased taxes to maintain services. This aggregate outcome however, resulted from local political decisions in which central government strategy was only one factor in the equation. Our view is that councillors are concerned about rates levels, as they perceive them as

Table 3.3: The Changing Pattern of Local Finances

	Inflation (Price Change) (%)	Grant Change (%)	Volume Change (%)	Tax Changes (%)
1979-80	18	-	1.5	14
1980-81	24	-	0.7	30
1981-82	13	-1.8	-1.3	34
1982-83	8	-2.0	0.7	12
1983-84	5	-3.0	1.6	4
1984-85	4	-1.5	-0.4	6
1985-86	7	-7.5	-3.3	20*
1986-87	5	-1.6	1.6	6
1987-88	7	-0.9	1.0	15
1988-89	7	-3.0	1.7	7

* Increase reflects impact of 1985 revaluation

Source: Rating Review

important election factors. A number of studies in the pre-reorganisation period failed to find any significant statistical relationships between rates and election results. (Newton, 1976; Alt, 1971). Other studies using a case-study approach did not regard rates as an important local political issue (Bulpitt, 1967; Dearlove, 1973). However, some did produce evidence that councillors themselves remained concerned about the level of increase (Bealey *et al.*, 1965; Hampton, 1970).

This is not surprising considering that for most of the pre-reorganisation period, a combination of increasing grant and low inflation combined to keep rates increases stable. Only in exceptional cases were there signs of a rates effect (Gregory, 1969). Since reorganisation, these conditions have changed. In the period 1974 to 1984, high inflation and grant reductions have been the norm. Midwinter and Mair (1987) argue that the interdependence of central and local government, and the pervasiveness of incrementalism in local budgets combined to make local accountability difficult to achieve. This is reflected in public perceptions. When asked, 'how much control do you think the local councils have over the levels of local rates and services?', opinion was evenly balanced, with 41 per cent thinking councils had more say, and 36 per cent considering central government had the loudest voice. When asked whether councils' financial problems reflected council overspending or government financial support, however, only 30 per cent blamed council overspending, whilst 50 per cent blamed lack of government help (Miller, 1988, pp. 33-4).

There is evidence that councillors are concerned about the political consequences of rates increases. In our fieldwork, several finance chairmen intimated to us that they seek to contain rates increases in election year, by drawing on balances and other tactics. We sought to examine this by looking at the performance of regional and district councils in the past decade.

Table 3.4: Use of Balances in Local Budgets

Year	Regions/Islands (£s per Capita)	Districts (£s per Capita)
1979-80		5.79
1980-81	Dr 2.85	6.79
1981-82	Dr 16.02	2.81
1982-83	Dr 15.35	2.42
1983-84	0.69	2.50
1984-85	2.29	4.19
1985-86	2.19	Dr 1.90
1986-87	5.74	Dr 1.71
1987-88	Dr 12.26	0.60
1988-89	Dr 4.62	2.13
1989-90	0.31	5.25
1990-91	12.70	7.84

Source: Rating Review

Table 3.4 gives some support to the notion that balances are used to reduce local taxes in election years. Looking at the regional data, there were substantial increases in the use of balances in 1986-87 and 1990-91. The 1982 elections were fought in a period of high inflation when local authorities faced stringent and unrealistic cash limits. This made the three budgetary years from 1982-83 unusual in local government experiences. Put more simply, the organisational slack and grant stability in the system which normally permits the building up of balances did not exist in an environment of real reductions in grant levels combined with high inflation.

The pattern is also supported by district data. Increased use of balances occurred in 1980 and 1984. The trend is less marked in 1988. We would suggest this reflected the pending introduction of the community charge and the nationalisation of the business rate. Authorities had incentives to minimise the use of balances: firstly, to provide some slack for the following years to try to stabilise community charges; and secondly, to keep the non-domestic rate up in the last year of rates as it would form the basis of the new system.

Over that period, the rates consequences of 'overspending' became considerable after 1983 when grant penalties were linked to spending performance against current expenditure guidelines. The issue of how to respond to guidelines became a central budget issue, because of the tax consequences. Authorities responded in three broad ways - compliance, shadow boxing and brinkmanship.

Compliance Strategies

These set budgets which would be acceptable to government and minimise penalties. The reflected and overriding ethic of fiscal prudence and concern to minimise demands on the rates; to avoid incurring penalties; and to

maximise grant income. There was a concern to maintain services, and achieve greater value-for-money.

Shadow-Boxing Strategies

These reflected a desire to develop services, rather than limit rates. This is not to say that authorities ignore the rating implications of their decisions. Rather they recognise that the key concern with rates and penalties is to maximise spending, minimise penalties, and avoid rate-capping. Such strategies are carried through in a low profile approach, although government grant reductions will be highlighted.

Brinkmanship Strategies

These were characterised by high public profile and confrontation with central government. In such councils, the politics of the budgetary process reflect a concern to expand services and provide ideological opposition to the New Conservatism. Such councils stress their defence of local services and local democracy, and do not shy away from high rates increases.

In all councils, budgetary tactics for financing the desired package are similar.

Increased Charges

One relatively painless way (for the authority) of maintaining services under fiscal stress is to increase income raised from consumers by higher fees and charges. Such increases are not free from political repercussions – council house rents are particularly politically sensitive. However, the fact that central government was seeking increased rents and cutting grants to encourage this gave local authorities a political argument which they would not otherwise have had. They could increase rents and ‘blame’ the government.

Grant Maximisation

The penalty system encouraged authorities to seek to maximise their grant income. Authorities who budget above guideline but spend below it can recover grant lost. Other authorities seek to influence the factors used in determining grant distribution to achieve a higher needs assessment for themselves.

Creative Accounting

In the late 1970s, authorities made sparing use of ‘creative accounting’ practices which permit expenditure to be maintained by financing adjustments, such as creation of special funds, utilisation of balances, the

capitalisation of revenue expenditure, rescheduling debts, virement, or leasing. The Audit Commission (1984) described such practices as an 'entirely understandable response' to the instability and uncertainty of the grant and penalty system.

Efficiency Savings

Authorities also pursued efficiency savings through increased productivity, although often these reflected crude short-term expediencies such as recruitment freezes or cuts in maintenance budgets. In general, savings have tended to be made without a highly visible impact on services.

Increasing Rates

The final, and least acceptable form of resource substitution was rates increases. The high level of rate increases was not because of wanton disregard, but tended to be predicted as unavoidable, and concern for rates increases has assumed increasing importance in the budget arithmetic.

Finally, we examine the link between rates and votes. This link has to be examined against the wider political context, and the best recent study of this has been carried out by William Miller.

Scots were outstandingly dissatisfied with central government but a little more satisfied than others with their local councils. However, in all regions, central government aroused more dissatisfaction than local government.

Central government's campaigns against high spending local government were most successful in the metropolitan areas and least so in Scotland. Fewer Scots saw the local councils as having control of local affairs and more Scots wanted greater local government autonomy. (Miller, 1988, p. 181)

Miller did not regard these opinions as reflecting 'leftist' attitudes. Indeed, Scots did not regard themselves so, and were least likely to favour increases in taxes and services.

Miller's study showed that 50 per cent of voters were uninfluenced by local issues in determining how they voted. Only 9 per cent were influenced by rates, whilst 7 per cent were influenced by rents. The two biggest local issues identified were education (15 per cent) and unemployment (11 per cent). In short, rates was an issue amongst several others, including education, planning, refuse, and social services in local electoral choice. Miller observed the existence of a 'Lothian effect', whereby turnout increased in Lothian whilst decreasing nationally. The Alliance vote increase was above average, whilst the Conservative decline was below average. Tax difference was the high profile political context of conflict with the Scottish Secretary.

In contrast, Labour managed to retain control and electoral support in Dundee and Stirling in 1984 following high rates increases in 1981, and in

Edinburgh in 1988, following a high increase in 1985. It may be that the proximity of the regional election (1987) to the rates increases was a factor. Miller concluded that rates increases are only likely to be salient when they are unusually high (and not if they are cut). In part, this suggests that this would be a weakness of the tax system. In terms of public choice, however, Miller concluded there was no evidence of 'irresponsible' voting by non-ratepayers perverting the political process by voting themselves services at someone else's expense.

CUTTING CAPITAL SPENDING

Governments have traditionally exercised stricter control over capital expenditure than revenue, partly for reasons of macro-economic management because it is in the main funded by borrowing, but also to ensure and preserve the credit worthiness of local authorities. The present system, known as *financial planning* was introduced in 1977, in the aftermath of the economic crisis and IMF loan of 1976, with the objective of strengthening control and providing greater flexibility in managing capital programmes for local authorities:

The intention of Parliament was to encourage the forward planning by local authorities over their capital expenditure and as this develops it will be possible to give consents under the section in broader and more flexible forms ... *and again* ... the primary concern of the Secretary of State's departments is with the total uptake of resources and the choice of projects and would be a matter wholly within the local authority's discretion. Consent would be given reference to an amount of expenditure for the year including expenditure under commitments entered into in earlier years. In determining the amount it would, of course, be necessary to have regard to the resources allocated nationally to the service as well as to the authority's spending plans but the aim would be to let the allocations develop according to the pattern imposed by the authorities' own choice of priorities. (Scottish Office Finance Circular 46/1976)

Whereas previously control had been exercised through loan sanctions on individual projects, the new approach would control spending totals. The objectives of controlling spending and borrowing were closely related, as the loan sanction approach merely controlled borrowing, not expenditure nor the debt instruments by which these totals were borrowed. The reforms were consistent with Treasury strategy of minimising volatility in British capital markets in the light of the instability of sterling (Sbragia, 1978).

Capital expenditure is mainly funded by borrowing. Over half of all capital expenditure is financed by borrowing from the council's Consolidated Loans

Fund, which is managed by the local authority finance department to ensure that the council will always be able to meet its obligations, and thus *all* transactions are centralised in a single fund. This account acts as a combined bank account and lender to all the various expenditure categories operated by an authority. Various arrangements exist to influence local borrowing, particularly over short-term debt. Capital expenditure may also be financed by capital receipts; revenue contributions; government grants; and leasing. Control of expenditure itself, however, is exercised by the Secretary of State for Scotland under Section 94 of the Local Government (Scotland) Act 1973, and decisions on capital allocations result from a planning and bargaining process between local authorities and the Scottish Office. Borrowing is therefore not linked to specific projects, but is seen as a justifiable way of financing capital expenditure. As such spending creates assets at high cost which provide community benefits over a period of years.

Local authority capital expenditure is part of the Government's 'planning total' for determining public expenditure, and this includes expenditure of both central departments and local authorities, and the element attributable to local authority capital expenditure is now equivalent to local authority borrowing for capital expenditure plus capital grants. Within Scotland, the Secretary of State determines the totals available for six capital programmes: water and sewerage; roads and transport; police; education; general services; and social work. Authorities submit financial plans to the Scottish Office which show proposed individual projects, their likely phasing, and policy priority. Plans are submitted following the issuing by the Scottish Office of 'provisional allocations' and authorities are asked to have regard to these figures. On its introduction, the Scottish Office called for realism in bids and warned against underspending. Despite real reductions in capital expenditure under the Labour Government, underspending was a major problem in the early years as authorities adjusted to the new discipline of expenditure controls (Midwinter, 1980). The Scottish Office is a spending department whose own negotiations with the Treasury would suffer from persistent underspending, and therefore, it would wish to avoid this.

The financial plans are therefore bids for resources. They provide a mechanism for bringing an authority's judgements about its needs to both the Scottish Office and through the media to the local public. They are therefore the official public statement of the council's political aspirations for the development of its services, aspirations which inevitably exceed the resources available. Overbidding against provisional allocations is commonplace, as authorities feel the necessity to make their needs known. Some authorities, however, regard overbidding warily, lest it devalues the plan for lack of realism or creates false expectations in the community.

Table 3.5: Local Authority Capital Expenditure as a Percentage of Total Local Authority Expenditure – Scotland

Year	Capital (£m)	Revenue (£m)	Percentage (%)
1979–80	617	2456	20.0
1980–81	610	2894	17.4
1981–82	616	3194	16.2
1982–83	608	3417	15.1
1983–84	742	3821	16.3
1984–85	655	3880	14.4
1985–86	668	3948	14.5
1986–87	723	4312	14.4
1987–88	847	4759	15.1
1988–89	783	4865	13.9
1989–90	890	5040	15.0
1990–91	910	5180	14.9

Source: Rating Review

The Government's strategy for public spending means that capital spending is a prime target for cutbacks, as a means of reducing government borrowing. Local authority capital expenditure is substantial. In 1990, capital debt was £1568 per capita, whilst expenditure was £165 per capita. In times of economic retrenchment, capital expenditure is one of the first targets for cutting, and capital programmes bore a large share of the IMF inspired cuts of 1975–77. For Britain as a whole, capital spending fell from 21 per cent to 14 per cent of total public expenditure. In Scotland, the decline was less severe from 33 per cent to 30 per cent (COSLA, 1981).

In 1979, when the new Conservative administration was looking for financial savings, COSLA suggested that these should fall disproportionately on capital expenditure, as revenue expenditure constituted existing service programmes which administratively and politically are difficult to cut. However, given the big reductions enforced by the Labour Government, the capital expenditure base had already been reduced, and with it the scope for further savings.

We examine the impact of the Conservative strategy in two ways. Firstly, we examine the changes in the *share* of local authority spending consumed by capital. In Table 3.5 we see that this fell sharply in the first two years of Conservative Government, and thereafter remained broadly stable, with increases in 1983 and 1987, both General Election years.

The trend from these figures is clear enough. Capital and revenue expenditure, however, have different cost components and the real value of each must be calculated from a different price base. Secondly, these gross figures include housing expenditure, which is the largest single programme and for which distinctive control arrangements exist. We shall therefore look at it in isolation in the next section. The Financial Planning system deals with all

Table 3.6: Scottish Net Capital Expenditure 1980/81–1990/91

(Constant 1985 prices) (1980 = 100)	
1980–81	100
1981–82	104
1982–83	104
1983–84	107
1984–85	98
1985–86	96
1986–87	114
1987–88	101
1988–89	94
1989–90	96
1990–91	94

Source: *UK National Accounts* (CSO, London)

other capital programmes, and the subsequent analysis refers to that.

The measurement of real term movements of capital expenditure was calculated using the Gross Domestic Fixed Capital Formation (GDFCF) deflator, using 1985 as the base year. This shows that over the 1980s the pattern of change in capital expenditure has fluctuated. In part, this will reflect the buoyancy of the construction sector. For example, in the recession of the early 1980s, authorities were in a strong purchasing position as competition for capital contracts was buoyant. Real terms spending fluctuates up and down over the period, with an overall decline of 6 per cent. The scope for reduction was greatly constrained by the substantial cuts in capital implemented under the preceding government.

The Government has, however, gradually liberalised the nature of the control system to assist flexibility in local programme management. These are the key arrangements:

Abatement

This deals with overspending in a previous year, by deducting from the current year's consent.

Enhancement

This deals with underspending in a previous year, by increasing the current year's consent up to a maximum of 10 per cent from the previous year.

Anticipation

This provides an automatic right to increase the current year's consent by a maximum of 10 per cent with a compensating adjustment downwards to the following year's consent.

Virement

This allows resources to be transferred between blocks provided the total allocation is not exceeded except in the case of Police programme, where a 10 per cent limit applies.

Such arrangements are helpful to programme management, which is an imprecise science. Virement is particularly useful for dealing with slippage to avoid underspending. Whilst it is clearly a liberalisation of the block allocation arrangement, block allocations themselves are statements of national priorities. Major projects included often result from very detailed discussions between the Scottish Office and local authority officials, and it can be argued that major and persistent deviations from plans in this way would lead to allocation reductions in the service which would be adversely affected. This was confirmed by the Scottish Office in a circular which argued that allocations would not be maintained to authorities who acted in this way.

The Financial Planning system was introduced to allow greater macro-control and micro freedom. Our evidence suggests it has achieved this. It is clear that the move from loan sanction to capital control has greatly assisted the achievement of expenditure reductions since reorganisation. Indeed, whilst major reforms to the English system were made following the 1986 Green Paper, the Scottish system was deemed satisfactory by the Government. The system also clearly permits government determination of priorities, both in terms of allocations between services and in the choice of specific projects. A major project which meets local priorities but not national ones has little chance of progress despite the theoretical existence of a block allocation.

The system also benefits local decision-making. It provides flexibility in programme management, and a focus for political priorities. Despite the rhetoric of conflict which bedevils central-local relations, there are still shared values between service departments of centre and locality, and the system suits the political bargaining nature of that relationship. Allocation levels are clearly less than local aspirations, and the adequacy of capital allocations will remain a source of friction between central and local government. We suspect, however, that even a return to the spending levels of the early 1970s would not remove that friction, given the existence of scarce resources which necessitates political and economic choice.

RESHAPING THE FINANCE OF HOUSING

Cutting Housing Finance

Public sector housing in general, and municipal housing in particular, has traditionally had a higher profile in Scotland than in the rest of the United Kingdom. This began at the end of the nineteenth century with a concern for public health issues stimulated by a report by the Royal Commission in 1917, which advocated municipal building as the only solution to problems of housing in the new urban centres, and was advanced considerably from 1955–75 through a 'municipal growth' strategy (McLennan, 1988) which sought to build as many houses as possible, as quickly as possible, and was permitted by specific grants.

From the latter half of the 1970s, a combination of economic crisis and policy review began a process of rationalising the role of municipal housing. The 1977 Green Paper made clear that the Labour Government saw less need for new building and greater need for modernisation and improvement, greater demand for home ownership, and better housing management by local authorities. This laid the basis for policy changes which resulted in a degree of continuity between the Callaghan and Thatcher Governments. The grants structure was rationalised, council house sales were permitted, rents increased, grants to the private sector increased, and a new system of Housing Plans introduced (Midwinter *et al.*, 1990, p. 174).

The Thatcher Government policies reflected its general critique of municipal incompetence, and the 'dependency culture' it created. The role of municipal housing was to be reduced through promotion of council house sales and alternative forms of housing tenure, particularly through the private rented sector. Public sector housing's share of new construction fell dramatically from 49 per cent in the period 1976–80, to 39 per cent in the period 1981–85, and the council share of the public sector also fell from 60 per cent to 47 per cent. As the volume of houses built fell by some 40 per cent, these figures understate the rate of municipal decline (McLennan, 1988, p. 104).

Financial Structure

Public housing differs from mainstream public services such as health and education in the extent to which consumers pay directly for using the service. It is therefore a 'semi-trading' service, which forms a separate part of the accounts of housing authorities. The main expenditure consists of repair, maintenance and management expenses, and loan charges. Income is provided from three sources – grants, rents and local taxation, the balance of which is subject to political adjustment, whether to restrict rents or control taxation or whatever.

The principal housing grant is called the Housing Support Grant (HSG) which is related to the expenditure and rental income of authorities. It is calculated for each of the fifty-six housing authorities on the basis of a formula which assesses their need to spend on debt charges, management and maintenance, and their potential income. This is not a matter of mathematics and accounting, but a political decision which reflects the priorities of the government of the day. In addition to HSG, there are separate grants for slum clearance, rent rebates and rent allowances. There are also grants for private sector housing, funded through local authorities' Non-Housing Revenue Account (Non-HRA) block, for private sector repair and improvement.

The control of capital expenditure is achieved through the Housing Plan system, a child of the planning mood of the 1970s. Originally, the intention was to assist central control of expenditure, and improve the needs-basis of resource allocation, whilst providing for greater local discretion and, through the removal of cost controls, provide a greater incentive to local economy.

The Scottish Office determines the overall housing resources, and these are allocated in two blocks, the housing revenue account (HRA) block, which covers house building, modernisation and land purchase, and the non-HRA block, for aid to the private sector through improvement grants and lending for house purchase and improvement. Authorities have the power of *virement* between blocks of up to 10 per cent of their allocations. As with other capital spending, authorities receive provisional allocations and then bid through the planning process. In the main, this is achieved through the submission of a Housing Plan every four years, and a capital programme in the intervening years. The plan contains an analysis of housing need, and a statement of objectives and policies. Whilst in England, the subsequent allocations are formula-based, in Scotland, a more judgemental approach is used. Guidance on needs assessment methodology is given, but the diversity of housing needs is seen to invalidate the use of a general formula. Final allocations are made by consent to incur expenditure given by the Scottish Secretary under Section 94 of the Local Government (Scotland) Act 1973.

Policy and Practice in the 1980s

Under the Callaghan Government, limits were set to the annual increase in rents permissible. The Conservative Government set about cutting housing expenditure with vigour. In the first three years, net capital expenditure was cut by 50 per cent, and housing support grant by 59 per cent. The strategy, however, was to alter the balance of contributions by reducing grants, with the intention that rents should increase, whilst rate fund contributions were maintained. In practice, Scottish authorities responded with a mix of rent and rate increases. The Government sought to achieve their objectives through

the use of a Housing Expenditure Limit (HEL) which, from 1981–82, sought to link authorities' capital allocations to the level of rate fund contributions (RFC now general fund contribution (GFC)) to their housing revenue account:

If an authority elects to budget for an RFC in excess of limits specified by the Secretary of State then, in order to accommodate the higher level of rate fund contribution within the total planned expenditure on housing, a corresponding reduction is made from the authority's capital allocation on the HRA block. The choice of resource allocation is therefore placed firmly with each authority – where they either choose to keep their RFCs within the specified limits and thereby release maximum resources for new investment or they choose to divert these potential new resources towards subsidising their housing revenue accounts. The valuable feature of these arrangements is that they apply at the level of individual authorities so that those authorities who choose to give priority to capital spending will not have their position prejudiced by the decisions of those authorities which choose to give priority to rate fund contributions (Scottish Office, 1984, p. 39)

The Housing Expenditure Limit in practice was a direct attempt by the Scottish Office to prescribe elements in housing budgets, and through the use of the sanction of reductions in capital expenditure sought to increase council house rents. Whilst the Scottish Office has correctly pointed out that in theory the targets could be met by reducing expenditure on management and maintenance as well as by increasing rents, in practice the former together account for only 30 per cent of the revenue budget, so that the extent of reductions necessary to compensate for the loss of grant income was so great that the real choices were to increase either rents or rates or both.

In practice, around half of the Scottish housing authorities exceeded their RFC target, incurring considerable loss of capital allocations as a result. Most of these were Labour-controlled, whilst Independent councils consistently met their targets, as part of the strategy of 'fiscal prudence' of maximising expenditure without incurring penalties/rate increases (Midwinter, 1984b). By 1985, the Government moved to more stringent controls, as authorities lost some £125 million of capital spending from their decisions on Rate Fund Contributions. HEL had failed to halt the rise in RFCs, or permit the concentration of resources into capital investment, and as a result, the Government took the power to set limits to the RFC by order, 'By exercising these powers the Government have halted the shift of resources away from capital investment and into subsidies ...' (Scottish Office 1986, p. 56).

The strategy to reduce RFCs in subsequent years eventually in 1990–91, led to their complete elimination and the withdrawal of this power as part of the reform of local government finance. This has therefore resulted in substantial increases in rents in real terms and as a

Table 3.7: The Changing Pattern of Council House Finance

	Rents %	HSG %	GFC(Formerly RFC) %
1970-80	47	39	14
1980-81	50	37	13
1981-82	59	25	16
1982-83	66	16	18
1983-84	71	11	18
1984-85	74	8	18
1985-86	79	7	14
1986-87	83	7	10
1987-88	88	6	6
1988-89	90	7	3
1989-90	92	7	1
1990-91	93	7	—

Source: Convention of Scottish Local Authorities: RSG and HSG Scotland 1991-92

Table 3.8: Housing Expenditure as a Percentage of Total Local Authority Capital Expenditure

1980-81	42.5
1981-82	38.1
1982-83	38.0
1983-84	47.3
1984-85	40.3
1985-86	37.5
1986-87	42.9
1987-88	48.2
1988-89	43.8
1989-90	44.9
1990-91	45.0

proportion of council house finance (McLennan, 1988) as can be seen from Table 3.7.

Turning to capital expenditure, we can see again the pattern of municipal decline until 1985-86, followed by a resurgence thereafter. Housing capital expenditure fell as a proportion of total local authority capital expenditure. The real level of capital expenditure also fell. McLennan (1988) argues that the 'continued cutting perspective' of the popular press is wrong, and that whilst there were real reductions between 1979 and 1985, since then there has been growth. Two caveats are necessary about his conclusions. Firstly they include spending by the Scottish Special Housing Association and the Housing Corporation, and secondly, they are based on gross figures which include spending financed by capital receipts. Figures for local government (Table 3.9) show that there was an increase in gross capital expenditure after 1985, but this was financed mainly by capital receipts, and net expenditure rose for only two years before falling again.

McLennan's judgement therefore needs qualification. Growth was in the main achieved through sales of council housing, at considerable discount prices to tenants. According to the rhetoric of sound finance espoused by the govern-

Table 3.9: Housing Capital Allocations

	Gross Allocations (1990-91 Prices) (£m)	% Funded By Receipts	Net Allocation (1990-91 Prices)
1979-80	463	N/A	463
1980-81	408	8.1	375
1981-82	375	22.4	291
1982-83	374	38.6	230
1983-84	418	44.6	232
1984-85	338	52.0	162
1985-86	371	43.3	211
1986-87	421	38.3	260
1987-88	530	44.7	309
1988-89	526	57.8	222
1989-90	518	66.5	173
1990-91	459	59.7	185

Source: Convention of Scottish Local Authorities: RSG and HSG 1991-92

ment, the council house sales policy is difficult to understand. Political logic is more understandable, given the link between housing tenure and voting behaviour (Heath, Jowell and Curtice, 1985; Rose and McAllister, 1986). Sales, however, have been relatively lower in the urban belt, in part because of the higher incidence of flatted accommodation, but also because of household economics (Scottish Office Central Research Unit, 1985). Sales have been concentrated in the better housing, leaving a shrinking stock with higher repair and maintenance costs. The wisdom of selling public assets at bargain prices to fund essential modernisation and repairs is still open to question.

CONCLUSION

In housing finance, the Government have fashioned policy instruments which have moved its influence from a directive to a regulatory one. Housing is almost wholly funded from council rents. This sits easily with the notion of municipal housing as a social service for those on low incomes, described as 'residualisation' (Malpass and Murie, 1987). The cuts in council housing expenditure have to some extent been counteracted by increased welfare benefits through the social security system. Councils will soon be charging economic rents in the narrow political definition of that concept whereby costs are met by consumers. Housing resources, it is claimed, are better targeted to those in greatest need by this approach. We would have to say that we remain sceptical that locally determined rate fund contributions were ever the way to a rational, equitable approach to housing subsidies, varying with political disposition more than tenant need. The housing equation needs to incorporate a consideration of the impact of tax relief on mortgage holders for a balanced judgement, but this is beyond the scope of our concern. We

would observe, however, that we now have an approach to housing finance which has disparate effects on households. Poor households receive welfare benefits; average income tenants receive no subsidy, and above-average income owner-occupiers with mortgages receive considerable subsidies which are regarded as incentives to promote home ownership. The inadequacy of this approach is perhaps best revealed by the freezing of loans eligibility for tax-relief purposes at £35,000 since 1983. We do not doubt that incremental change is the only feasible way ahead. Our view, however, is that council tenants have been subject to often irrational policy changes which reflect the values of the New Conservatism. Evaluation of the input of these changes has been confined here to the quest for financial control. What they have meant in terms of housing problems and issues, such as dampness, disrepair, or homelessness, is less clear cut, but given the recognition that public housing will be around for some time to come, it is perhaps time these issues were seriously appraised.

The Reform of Local Taxation

PAYING FOR LOCAL GOVERNMENT

After the failure of its earlier reforms to achieve the desired level of local spending, the Government turned its attention to the system of local taxation. The arguments for change were set out in the 1986 Green Paper *Paying for Local Government* (Cmnd 9714). However, this document came only four years after a major review of local authority finance concluded that rating should remain the basis of local taxation. Furthermore, in the Green Paper, the Government deduced that, 'these proposals amount to the most radical re-structuring of local government finance this century. They will provide both a new impetus to local democracy and a much fairer basis of local taxation' (Foreword to Green Paper, Department of Environment, 1986). The main components of the financial reform were: the abolition of domestic rates (a property tax) and their replacement with a community charge payable by all adults aged 18 years and over; the pegging of non-domestic rates in line with inflation and their eventual replacement with a Uniform Business Rate; and the development of a simpler grant system, the Revenue Support Grant, to succeed the three-pronged Rate Support Grant.

This chapter seeks to consider why a wholesale reform of local authority finance was deemed necessary and draws comparisons between the principles underlying the new financial system and the realities of its operation. As such, the chapter is broadly divided into two main sections. Firstly, arguments for reform and the subsequent legislation are outlined. Secondly, the evidence relating to the implementation of the new fiscal structure is analysed.

Although the Green Paper criticised the rating system for its inequity, the central theme was the weak accountability which underlay the old system of local government finance:

Effective local accountability must be the cornerstone of successful local government. All too often this accountability is blurred and weakened by the complexities of the national grant system and the fact that differences arise among those who vote for, those who pay for, and those who receive

local government services. (Foreword to Green Paper, Department of Environment, 1986)

Furthermore, it was concluded that, 'in almost every respect the existing local government finance system makes it almost impossible for local electors to relate what they pay to the services provided' (Foreword to Green Paper, Department of Environment, 1986).

The rating system was seen to be lacking in three fundamental ways:

- non domestic rates were paid by business and public institutions to whom local authorities were not answerable;
- domestic rates were paid by a minority of local electors, and varied in a way that had little or no regard to the use made of local authority services;
- central government grants were calculated in a very complicated way that concealed the cost of local services from the electorate.

In 1985-86, domestic ratepayers provided only 31 per cent (after rebates) of rates income and only 13 per cent of the total income of local authorities. Moreover, too many electors made no direct contribution to the financing of local government and could in the Government's view, 'vote for higher services without having to pay anything towards them' (Department of Environment, 1986, p. 6).

The Government also argued that as a local tax, rates had several technical defects. The amounts paid in rates on similar properties could vary dramatically across the country, despite relatively small differences in service levels. The system took no account of the consumption of local services by households, with single-person households paying the same as four-adult households occupying the same property. Finally, the need for periodic revaluations led to 'turbulence and disruption' for individual ratepayers as witnessed with the 1985 revaluation, and concealed the impact of councils' policies on local taxation. Moreover,

Average movements in rate bills at regional level mask even more dramatic increases falling on individual ratepayers. To mitigate the impact of revaluation the Government introduced a special revaluation rebate scheme for properties with a rateable value more than three times what it had before. But despite this, more than 100,000 households in Scotland faced increases of more than a third in their rate bills. It is hardly surprising that in many quarters the overwhelming desire is now for an end to a system which subjects households to what they see as quite arbitrary and unpredictable fluctuations in rates demands following periodic revaluations. (Department of Environment, 1986, p. 61)

The rating system was regarded as complex and confusing and encouraging high spending. To strengthen the link between local authority and commu-

nity required that voting be related to paying in the form of a charge. In the Government's eyes a 'community charge' would provide a closer reflection of the benefit of modern people-based services than a property tax and as all adults would be required to pay at least a proportion of their tax (minimum 20 per cent), the community charge would be a fairer, more accountable way of paying for local government.

However, reform could not be confined to the introduction of the community charge otherwise spending above government guidelines would not necessarily fall on the electorate but could be passed onto non-domestic ratepayers, that is, businesses. By limiting increases in non-domestic rates, marginal spending would have to be financed by chargepayers.

These arguments are a form of economic reasoning. The economists Foster, Jackman and Perlman regard the voting mechanism as an imperfect surrogate for the price mechanism in the private sector:

an efficient local tax should fall on those who benefit from local government services. On these grounds, we would prefer a poll tax, a land tax or on the assumption of owner-occupation – some form of housing tax ... (because) local electors will have no incentive to be efficient unless they are substantially responsible for financing the services. Therefore an efficient tax must fall on electors. (Foster *et al.*, 1980, p. 235)

Similar arguments were made by right-wing politicians. For example, Douglas Mason argued that the large proportion of non-ratepayers in the electorate amounted effectively to a system of representation without taxation (Mason, 1985). Michael Forsyth MP, saw the rating system as a recipe for irresponsibility which allowed the militant left to play politics with ratepayers' cash and build up political empires (Forsyth, 1985). In our view, the assumption that the act of voting is analogous to purchasing private goods in a market context is simplistic. In markets, consumers buy goods for personal consumption; in elections, they vote for representatives on the basis of vague manifestos without price tags and with no guarantee of consumption.

In proposing that non-domestic rates become a national tax, that domestic rates be replaced by a community charge, and that these be supported by a simpler grant system, the Government was seeking to create a system of local government finance in which, 'clear and comprehensive price signals must be given to all local taxpayers' (Department of Environment, 1986, p. 24). The capacity of the revised financial structure to achieve this objective was, in our opinion, always doubtful, an issue addressed shortly.

The potentially adverse political consequences for the Conservative Government of the 1985 Scottish rating revaluation are commonly regarded as the immediate cause of the abolition of domestic rates and the introduction of the community charge. Scottish revaluation occurred after seven traumatic

years of economic change in Scotland characterised by a decline in manufacturing capacity but service sector growth, and rising unemployment overall. The rental value of properties, the basis of the old rating system, reflected those changes in 1985. Households experiencing unemployment have reduced capacity to pay rents, whilst for those in work, the experience of the 1980s was of income growth, in part due to working spouses. The demand for home ownership increased and rental values with it. (Dowle, 1985; John, 1989; Bailey, 1990b).

Revaluation considerably altered the local tax landscape in Scotland. Rateable values increased by a multiple of 2.3 on average, whilst industry's rose by a factor of only 1.7. The impact of these changes was greatest in the Conservatives' political heartland, with districts such as Berwickshire, Bearsden and Milngavie, Eastwood, Angus, and Perth and Kinross all facing the highest increases in rates, some as much as 40 per cent. In contrast, areas benefiting most from revaluation were areas of traditional Labour party dominance (Midwinter, Mair and Ford, 1987a).

Pressure for change had actually grown in 1984, the year prior to revaluation, reflected in a surfeit of motions to the Conservative party conference. Protests were both about rates increases and the Government's inability to discriminate between 'prudent' and 'profligate' authorities (Dowle, 1985). The then chairman of the Conservative Party, Sir James Gould, played a high profile role in trying to suspend revaluation as a 'huge vote loser', reflected in the unusually high levels of correspondence on the matter both to himself and Scottish Office ministers.

It is certainly the case that the highest increases were faced by the Government's natural constituency, owner-occupiers and small businessmen, but the impression given in the media was one of widespread dissent. Misconceptions that revaluation adversely affected everyone abounded. A more accurate picture would be of a highly articulate minority in revolt. Protest was confined to a small but vociferous and active number of business and ratepayer groups. The best evidence is of those who actually *contested* their valuations which one study put as low as 5 per cent of domestic ratepayers (Gardner, 1986). It was the locus of discontent, rather than the scale which was important. The prospect of electoral defeat in the Conservative heartland prompted action.

Undoubtedly, the revaluation protests put pressure on the Government to review local government finance but it does not explain the wholesale reforms implemented. Rather, these reflect the political ideology of the Thatcher Government responsible for their introduction. As such, Scottish revaluation is more appropriately regarded as the catalyst which forced the change.

THE LEGISLATION

The Abolition of Domestic Rates etc. (Scotland) Act 1987 effective from 1 April 1989, was the principal piece of legislation which abolished domestic rates in Scotland, and introduced a new per capita tax – the community charge – payable by all adults over 18 years of age. The Act made provision for exceptions and exemptions. People on low incomes were eligible for rebates up to a maximum of 80 per cent of their tax liability, but with no rebate on water charges. Likewise, students would only be required to pay 20 per cent. A small number of people would be completely exempt, such as persons for whom child benefit is payable or the severely mentally handicapped, and special arrangements were made for communal establishments.

In the case of second homes, a standard charge, a multiple of between one and two times the individual community charge would be applied. However, for most adults who should be registered in their 'sole or main residence' (or family home), the individual community charge was the relevant category. The provision of information for the community register was made the duty of a 'responsible person' usually the head of the household, and he/she was required to notify changes in the composition of the household to the authority.

The administrative structure created by the Act is complex. The central actor in respect of registration is the Community Charge Registration Officer (ccro) and the key administrative mechanism is the Community Charge Register, appearance on which is the trigger for payment by individuals. It is a record of tax liability, and it is the duty of the ccro to prepare, maintain and keep it up-to-date. The levying authority is the regional or island council with finance officials responsible for billing, collection and recovery. Housing bodies (district councils, the Scottish Special Housing Association and the New Town Development Corporations) may act as agents for the levying authority.

The Act was an enabling one with most of the prescriptions taking the form of regulations made by statutory instruments. A consultancy report by CIPFA Services Limited in 1987 had pointed to the need for the urgent issuing of these regulations. In fact, the timetable regulations were only laid down in December 1987, the definition of the domestic property in January 1988, followed by the registration regulations in February, the standard/collective regulations and student regulations in March and the rebate regulations in October, some three months before the first charges were due to be set.

The Act contained only the bare outline of the reforms and was constructed on the basis that the legal framework would have to be developed as knowledge about the tax was accumulated. This in fact occurred and between

August 1987 and January 1990, over thirty orders were passed under the Act. Most of these regulations concerned the definition of the key terms under the Act, and arrangements for registration, collection, rebates and exemptions. The principal difficulty with these was their untimely (late) appearance in the implementation process and the fact that they required to be amended several times because they had been formulated incorrectly. However, there were a number of orders which activated more fundamental changes such as the introduction of the main transitional relief scheme announced late in 1989 with the regulations becoming effective in March 1990 but having retrospective effect back to financial year 1989-90. This particular piece of legislation was also subject to several subsequent refinements.

The Accounts Commission stated in its review of the first year of the new charge in Scotland that by any standard, the timetable prescribed by statute for such a formidable undertaking was a tight one (Accounts Commission, 1991), whilst Peter John in his analysis of the introduction of the reforms concluded that the legal framework was complex, uncertain and subject to change (John, 1989).

The Local Government Finance Act 1988 introduced the Uniform Business Rate to England and Wales. Prior to the reforms, the non-domestic rate was set by each local authority but under the new legislation, central government sets the poundage which will apply throughout the country and the income from non-domestic rates will accrue centrally and be redistributed to local authorities on a per-capita basis. Originally, it had been envisaged that the Uniform Business Rate would be introduced in Scotland in 1990 at the same time as the proposals became effective in the rest of Great Britain. However, at the time the reforms became operational, rateable values in Scotland were on a different basis from those in England and Wales because Scottish assessors carried out a revaluation in 1985 whereas south of the border, the last revaluation occurred in 1973. Non-domestic rate poundages in Scotland were consequently lower but the application of the Uniform Business Rate throughout the country would have led to an inequitable and intolerable burden being imposed on Scottish businesses. Consequently, until business valuations have been harmonised throughout the country, the Secretary of State for Scotland sets the maximum level of increase each authority can impose on its non-domestic ratepayers. This is set in line with the Retail Price Index.

THE OBJECTIVES OF REFORM

The document 'Paying for Local Government' outlined the Government's concerns about the rating system. In essence they regarded this method of

financing local government as seriously flawed with the consequence that these deficiencies weakened, 'the accountability of authorities to local people with the result that many electors are indifferent to how much their local council spends or are encouraged to vote for ever higher expenditure on services' (Department of Environment, 1986, p. 38).

The reforms which followed were intended to combat these shortcomings as follows:

- non-domestic rates will still make the same overall contribution to aggregate local authority expenditure, but individual authorities will no longer be able to increase the rates paid by non-domestic ratepayers in their area so as to finance marginal increases in expenditure;
- the local domestic tax arrangements would be fairer; all electors would make some contribution to the expenditure of their local authority and this contribution would be more closely related to their use of local services;
- the grant system would be more stable and more comprehensible; the grant an authority received would no longer depend upon how much it spent and there would be no grant support for marginal spending; and the grant system – in combination with the new tax arrangements – would be based on equal tax bills for comparable levels of service rather than the equalisation of rate poundages, which at present causes significant disparities between the tax bills of different areas;
- the combined effect of the tax and grant reforms would be to ensure that the full costs or benefits of increases or savings in expenditure accrued to local domestic taxpayers; with the widening of the tax base and the more understandable relationship between spending and tax demands, this would greatly improve the accountability of local authorities to their electors (Department of Environment, 1986, p. 38).

The underlying theme of these interrelated policies is the desire to isolate marginal spending by councils. The system is designed so that this spending should be borne by community charge payers thereby strengthening the link between changes in authorities' expenditure and changes in tax bills. As a consequence, the electorate will no longer 'be encouraged to vote for higher service standards than they would be prepared to finance if they bore the full marginal cost themselves'. (Department of Environment, 1986). As the Adam Smith Institute concluded:

Every voter now faced with paying their share of council expenditure will have a powerful incentive to consider the possible costs of their candidates policies before they cast their vote ... Accountability and responsibility will reappear in many communities where, in recent years, both

have been lamentably lacking ... and this will create significant, and probably substantial electoral and demographic pressure on authorities to reduce their expenditure. (Adam Smith Institute, 1989, p. 33)

However, the community charge system was also regarded as fairer than rates by the Government because payment will reflect the composition of households and thus their consumption of local services. In essence, this will remove the mismatch between those who vote for, those who pay for and those who receive local government services which was regarded as the main obscuring factor under the rating system.

The Government separated its analysis of expected distributional consequences arising from the reform into the likely impact on local authorities and the changes which it anticipated at a household and individual level.

In the Green Paper, two types of authority were identified which were expected to gain from the new non-domestic rates and grant systems. These were:

1. **Low-spending authorities.** Authorities spending at a low level in relation to their grant-related expenditures (GRES) will be levying non-domestic rates below the national average and will thus get a below-average yield from their non-domestic ratepayers. National redistribution of the total yield of non-domestic rates as a common amount per adult would increase the amount of non-domestic rate income going to these authorities; and

2. **Authorities with high domestic rateable values.** At present, the block grant system equalises the differences in the rateable resources of authorities; grant is in effect transferred from authorities with high rateable values to those with low rateable values. The discontinuation of this process means that authorities with high rateable resources – which generally have high rates bills at present – would retain a larger proportion of their grant than hitherto. Since non-domestic rates would now be dealt with separately, this effect would depend on the level of an authority's domestic rateable values. (Department of Environment, 1986, p. 39)

Conversely, two types of authority should have a fall in their non-domestic rate and grant income and thus an increase in the proportion of expenditure financed from local taxation. These are:

1. **High spending authorities.** The limitation of non-domestic rate poundages and the pooling and redistribution of non-domestic rate income would mean a reduction in revenue to authorities spending above the level of their GRE and currently levying an above average non-domestic rate poundage; and

2. **Authorities with low domestic rateable values.** Just as authorities with high domestic rateable values would gain from the discontinuation of

resource equalisation, so authorities with low domestic rateable values would lose. (Department of Environment, 1986, p. 39)

In the absence of the Uniform Business Rate being extended to Scotland, the validity of the high/low spending authority argument cannot be established.

For householders, the reforms were expected to affect them in two different ways:

1. **According to the size and composition of the household.** In general, single person households would benefit from the replacement of a tax on property by a tax on people, and households with three or more adults will lose.
2. **According to the rateable value of the household property relative to that of other domestic properties in the authority's area.** For any given household type relatively high rateable value households would benefit from the gradual move away from using property values as the basis of local taxation, while those in low rateable value properties would take a bigger share of the financing of local services. This effect would occur both across precepting authority areas and within rating authorities. (Department of Environment, 1986, p. 40)

The main redistributive effect would be between those who paid rates, namely householders, and those who did not who have been brought into the local tax base for the first time.

ADMINISTRATIVE COMPLEXITIES

The poll tax system was fraught with administrative complexities which have pervaded its introduction and operation. The Accounts Commission describes the reforms as the single greatest administrative upheaval in Scottish local government since the new authorities were established in 1975 (Accounts Commission, 1991). The administration of the charge has five main stages: registration; rebates; billing; collection; and recovery. Different organisational bodies are involved in the majority of these stages giving rise to the potential for unco-ordinated and inefficient action not eased by the speed of legislation, which meant that authorities had insufficient time to test and validate the computer software supporting the community charge, the operation of which determines the success of the administration of the new tax system.

As the Commission has stated:

The registration process was the first and arguably most critical step in authorities progress towards the implementation of the community charge. The accuracy of the initial register and the extent to which it was timeously updated clearly had an effect on the accuracy of bills produced

Table 4.1: Numbers Registered for the Community Charge

	1989-90	1990-91	1991-92
Borders	78,391	77,500	77,600
Central	198,814	198,815	198,476
Dumfries and Galloway	110,672	111,064	110,786
Fife	245,200	262,900	254,741
Grampian	374,766	371,123	365,458
Highland	149,814	147,317	147,677
Lothian	576,550	577,469	558,177
Strathclyde	1,715,730	1,730,706	1,696,139
Tayside	289,510	289,270	283,810
Orkney	14,444	14,417	14,358
Shetland	16,343	15,772	16,167
Western Isles	22,279	22,264	22,047
Scotland	3,792,513	3,818,617	3,745,436

Source: Rating Review

and on the ability of authorities to collect and pursue the charges raised.

(Accounts Commission, 1991, p. 6)

Despite the late legislation, and the fact that no clear definition existed for 'sole or main' residence, all Community Charge Registration Officers in Scotland had prepared their initial registers by the statutory deadline. Table 4.1 shows the number of persons registered for the community charge in its first years of operation.

Although in some authorities, numbers fell (for example in Grampian), overall there was a slight increase between 1989-90 and 1990-91 in the numbers registered but a marked decrease between 1990-91 and 1991-92. Indeed, even in authorities seeing the number of chargepayers increase between the first two operational years of the tax, there have been significant declines between last year and this. In Strathclyde, for example, between 1989-90 and 1990-91, the numbers registered for the tax rose by 14,976 (0.9 per cent) but between 1990-91 and 1991-92 fell by 34,567 (2.0 per cent).

The principle registration problem has been the unexpectedly high level of changes in the Community Charge Register. Dumfries and Galloway was the region which experienced least volatility with only 28 per cent of the register requiring amendment during the first operational year. Contrastingly, in all other regions the turnover was 40 per cent or over and indeed in Central, Grampian, Strathclyde and Tayside the percentage change in register was at least 50 per cent.

The high turnover is due to a combination of population mobility and changed personal circumstances which must be notified and an amendment made to entries in the register. In Strathclyde, for example, 32 per cent of the adult population moved house whilst 23 per cent reported changed circumstances. This unanticipatedly high level led to backlogs in the registration process and a huge quantity of correspondence and telephone enquiries had

Table 4.2: Cost of Community Charge Registration (£'s)

	1989-90	1990-91	1991-92
Borders	189	272	428
Central	438	1343	1345
Dumfries and Galloway	310	391	434
Fife	554	672	945
Grampian	867	1834	2062
Highland	475	984	1197
Lothian	1152	2691	4766
Strathclyde	3176	4411	5082
Tayside	809	1262	1223
Orkney	58	71	83
Shetland	80	103	181
Western Isles	—	—	—
Scotland	8108	14034	17746

Source: Rating Review

to be handled by the authorities. Consequently, the new system required a big increase in staff handling these matters.

Registration problems were not mitigated by the fact that registration is a separate function and indeed office from the finance department which has responsibility for collecting the tax. Many taxpayers notify changes in circumstances/location to the department from whom they receive their bills, namely finance. Finance officers then have to inform the CCRO of the change and they in turn check the accuracy of the reported change, a time-consuming process. CCRO personnel then report back to finance who amend the bills accordingly and then issue them. Apart from the time involved, an immense amount of administrative paperwork is generated and indeed while the problem is being solved, no tax is collected for the authority adding to cash-flow problems. Moreover, these divisions of responsibility cause public confusion (Accounts Commission, 1991). The CCRO can, and has, called on other bodies such as district councils to provide information for the maintenance of the register. This introduces more organisations into the registration process and in many instances further complicates it.

The cost of community charge registration rose markedly between 1989-90 and 1991/92 reflecting these problems. These figures conceal the capital costs incurred by the new system with £25 million spent on the acquisition of computer equipment and property to house the additional staff employed.

The community charge *rebate* system was introduced in tandem with the community charge and was designed to replace the rates element of the former housing benefit scheme which became operational the year prior to the poll tax. Peter John (1991) has estimated that about 30 per cent of Scotland's adult population are entitled to receive a community charge rebate. This is equivalent to about 1.15 million people. Approximately 560,000 of these are entitled to the maximum 80 per cent rebate.

A low level of rebate uptake had been feared since non-payment campaigns might deter non-payers from applying for rebates since this would effectively register their liability for the tax. Extensive publicity was thus organised via newspapers and television to maximise the number of applications. Floods of rebate applications and enquiries resulted but often from people not eligible for help. A huge workload was created by incorrectly completed forms and multiple applications.

The calculation of rebate entitlement is complex involving assessments of net income and savings. However, community charge rebate applicants are required to give the same information for housing benefits and many authorities considered it appropriate to continue the agency arrangements they had had with housing bodies and district councils for the lodging of one application to be used to calculate both rebates. However, in many instances, the computer systems of the agency organisations were incompatible and information could not be passed back to the regional council preventing the agency arrangement from continuing and resulting in a duplication of resources in estimating rebate entitlement to say nothing of a considerable amount of public confusion. Some authorities chose not to act as agents for political reasons hoping to dissociate themselves from the vastly unpopular tax.

Rebate processing was not helped by the Government's strict '57 day' rule. Councils are not allowed to backdate a rebate beyond 57 days, a policy introduced to tackle non-payment. However, many late applicants were genuine, not realising their entitlement to benefit for example, and sometimes, particularly in the case of the elderly, not appreciating that they were required to *apply* for their rebates at all. Authorities can operate a policy of 'good cause' for backdating applications but this is strictly controlled by the regulations and not all claims could be operated in arrears leading to hardship in a number of cases (John, 1991).

Appearance on the community charge register triggers liability to pay the tax and thus the efficiency of the *billing* stage in the poll tax process is inextricably linked to the adequacy of the registration stage which we have seen to be somewhat lacking. There were particular problems associated with the billing of the tax, especially relating to printing and enveloping, and the sheer volume of work involved due to the much higher number of bills requiring to be issued. The number of chargepayers in Scotland is around 3.7 million, almost double the number of domestic ratepayers (2.0 million). A number of authorities found that their registration and billing computer software was not adequately interfaced. Billing was affected by the continual changes in legislation particularly relating to transitional relief. Each amendment requires software updates to be implemented and a new billing run to

be activated. Whilst billing has been relatively uncomplicated compared with other components of the community charge process, it has not been without difficulty. Most problems arise from computer deficiencies which in turn are a reflection of the speed with which the legislation was introduced in Scotland which was too fast to allow for proper development and testing of software.

Collection of the tax was also problematic (Accounts Commission 1991; John 1991). A standard range of payment methods was offered by authorities. The majority of charge payers paid the tax using Girobank (28 per cent), or at Office counters, including agents (27 per cent), or by direct debit (26 per cent). However, 16 per cent paid by standing order or at bank counters and 3 per cent paid by other methods with the most frequently offered alternative payment method being deduction from salary or wages of council employees.

The most popular method of payment, namely Girobank is notably the most expensive for authorities with the unit cost in 1989–90 standing at 40p rising to 43p in 1990–91. Direct debits, in contrast, cost only 3p or 4p per transaction indicating substantial savings if a switch towards direct debiting could be affected.

Although operating relatively easily the cost of collecting the new local tax is much higher than under the old system which ironically increases the charge payable by the public. In 1987–88, the cost of collecting rates in Scotland was £11,857 million and by 1988–89 this had risen to £14,093 million. In 1989–90, the collection of the community charge and non-domestic rates cost Scottish local taxpayers, £23,735 million. In 1990–91 however, the cost of collection had increased by 83.5 per cent and amounted to £43,558 million or approximately £12 of the community charge payable by adults.

Whilst the process of collection was comparatively untroublesome if expensive, non-payment or the low-level of collection was a major administrative/political difficulty. Some people were not paying for political reasons whilst others had fallen behind with their payments. However, if a chargepayer is in three months' payment arrears and fails to respond to the seven and fourteen day notices issued by authorities, then councils must *recover* the debt in the same way as a private body would. However, the Accounts Commission have identified a number of characteristics which are particularly pertinent to arrears pursuance in the local government finance context:

- the former link between district councils, their tenants and the facility for rates to be paid together with rent was broken with the introduction of the community charge;

- that former relationship incorporated the threat of eviction for persistent rent/rates arrears, now lost in connection with the recovery of the community charge;
- lower income groups are required to meet at least 20 per cent of the charge whilst arguably representing the least able to pay;
- authorities and Sheriff Officers alike were brought into contact with a range of individuals who had not previously been faced with debts or debt recovery procedures. The considerable incidence of relatively low value debts is exemplified in one authority where, at June 1990, 100,000 debts were identified as amounting to only £400,000;
- arrestment powers are not readily applied when difficulties are encountered in identifying debtors' employers or bank accounts;
- the use of the ultimate sanction of poinding and warrant sales has been a matter of considerable controversy. In fact, there may be practicable difficulties in the identification of the specific owner of poindable goods and the Debtors (Scotland) Act 1987 precludes the poinding, for the most part, of normal household goods;
- the transitional relief scheme meant that authorities and Sheriff Officers could be pursuing debts which might subsequently have been relieved;
- registration backlogs created doubts over and inaccuracies in the information on which summary warrants were based. (Accounts Commission, 1991, p. 15)

Local authorities have generally chosen to pursue non-payers by summary warrant since this allows a large number of debts to be processed at the same time. However, most authorities delayed putting arrears cases on summary warrant. Despite this, by January 1990, there were 421,400 cases in mainland Scotland, 250,000 of these in Strathclyde.

When a summary warrant is issued, the Sheriff Officer has to send the person a copy along with a signed certificated extract from the council. These certificates have to be prepared individually which is a time consuming process. Furthermore, Sheriff Officers found that a large number were sent back as no longer living at that address. In central Glasgow in July 1990, 46 per cent of warrant letters were returned in such a manner (John, 1991). In such cases, the matter is referred back to the regional council.

When a summary warrant has been issued but payment is still not forthcoming, debt recovery can be pursued in four main ways: earnings arrestment; arrestment of assets; poinding and warrant sales and income support arrestment, none of which has proven to be feasible in this instance. A satisfactory method of recovering community charge arrears has yet to be found and whilst this problem remains, debt pursuance will continue to pose

Table 4.3: Local Government Income Sources

	Rate Support Grant (%)	Non-Domestic Rate Income (%)	Domestic Rates (%)
1979-80	67.8	21.2	11.0
1980-81	64.3	23.3	12.3
1981-82	58.1	27.0	14.8
1982-83	57.5	27.2	15.3
1983-84	59.0	26.3	14.7
1984-85	57.0	27.4	15.6
1985-86	56.5	27.5	16.0
1986-87	53.3	29.2	17.5
1987-88	51.1	30.0	18.8
1988-89	51.5	29.6	18.9
	Revenue Support Grant (%)	Non-Domestic Rate Income (%)	Community Charge (%)
1989-90	54.5	25.0	20.5
1990-91	55.9	23.1	21.0
1991-92	54.1	22.9	23.0

Source: *Scottish Local Government News and Rating Reviews*

an administrative headache for authorities. This problem is exacerbated by the fact that many of the debts are for small amounts owed by those receiving 80 per cent rebates. Many in this category are students who frequently change their address and it is of questionable economic sense to pursue such debts to the last resort. Full rebates for those on low incomes and students would have removed this administrative difficulty but would be at odds with the government's desire to have all adults contributing something towards the cost of local services. Under the rating system, local authorities could write off a person's debt on the grounds of poverty or inability to pay, but councils have been advised that they do not have the legal power to continue this action under the community charge scheme, which only serves to complicate the recovery process further.

THE CHANGING PATTERN OF TAXATION

In analysing how the financial reforms have affected the pattern of taxation in Scotland, a clear trend emerges in terms of sources of income for regional and island councils. Table 4.3 indicates the percentage of income coming from central government grants, non-domestic rates and domestic rates/community charge since 1979-80.

From 1979-80 till the last year of the rating system, the proportion of income coming from the rate support grant fell (excluding financial year 1983-84) but rose again following the introduction of the community charge. The share of income coming from domestic rates/community charge payers is increasing.

Table 4.4: Net Tax Changes in Strathclyde Districts

	£ per Adult (1989-90)	£ per Adult after Safety Net Removed	Net CC/ Net Rates
Argyll & Bute	- 6	+ 31	0.97
Bearsden and Milngavie	- 167	- 178	0.60
Clydebank	- 14	+ 19	0.93
Clydesdale	+ 14	+ 47	1.06
Cumbernauld and Kilsyth	- 21	+ 14	0.91
Cumnock and Doon Valley	+ 16	+ 59	1.09
Cunninghame	- 13	+ 23	0.94
Dumbarton	- 13	+ 23	0.87
Eastwood	- 138	- 140	0.64
East Kilbride	+ 25	+ 55	1.11
Glasgow	+ 15	+ 57	1.08
Hamilton	- 15	+ 6	0.93
Inverclyde	- 11	+ 5	0.95
Kilmarnock and Loudon	- 13	+ 36	0.94
Kyle and Carrick	- 32	- 20	0.89
Monklands	+ 14	+ 39	1.07
Motherwell	+ 13	+ 33	1.07
Renfrew	- 10	+ 17	0.96
Strathkelvin	- 21	+ 4	0.92

Source: Data supplied by Strathclyde Regional Council

The increasing financial share borne by chargepayers and the rate support grant has been to the benefit of non-domestic ratepayers. From 1979-80 to 1988-89 non-domestic rates income accounted for an increasing share of local government income rising from 21.2 per cent to 29.6 per cent. However, following the reforms this dropped back to 25 per cent in 1989-90 and in 1991-92 non-domestic rates are budgeted to generate 22.9 per cent of local income. This has had a marked effect on non-domestic rates poundages. For example, if in 1991-92, non-domestic ratepayers had financed 29.6 per cent of local authority income as in the last year of rates, then they would have needed to raise £1,322 million which with a total rateable value in Scotland of £2,505 million for non-domestic properties, would have meant an average Scottish poundage of 52.8p. However, by only needing to finance £1,023 million, the average Scottish regional poundage is only 40.8p. The average rates bill faced by a business ratepayer is consequently £4,737 as opposed to £6,130, a saving of £1,393 on average. Part of this saving is due to the higher level of government grant, but part of it is due to transferring the tax burden to community charge payers. Whilst business ratepayers paid 61 per cent of the taxes levied by local authorities in 1988-89, by 1991-92, this had fallen to 50 per cent. In 1991-92, if the business share of local taxation had not been changed, poll tax levels would have been about £62 lower.

The Government's analysis in the 1986 Green Paper concluded that households would find their tax levels affected according to the size and composition of the household and according to the rateable value of the

Table 4.5: Percentage of Single-Person Households in Strathclyde Districts

Argyll and Bute	30.1
Bearsden and Milngavie	19.2
Clydebank	26.1
Clydesdale	22.5
Cumbernauld and Kilsyth	18.5
Cumnock and Doon Valley	22.3
Cunninghame	25.2
Dumbarton	24.9
Eastwood	20.8
East Kilbride	20.8
Glasgow	31.7
Hamilton	22.6
Inverclyde	26.9
Kilmarnock and Loudon	24.9
Kyle and Carrick	25.8
Monklands	21.5
Motherwell	23.0
Renfrew	25.8
Strathkelvin	17.6

Source: Data supplied by Strathclyde Regional Council

property. It was also argued that the changes would benefit those on low incomes and single-person households. Low-income households were expected to gain because of household size: 95 per cent of households with net incomes below £50 per week and 61 per cent of the next income band are single-adult households.

We empirically tested the gains and losses in tax liability arising from the implementation of the new system using three potential explanatory variables. Our analysis is confined to the districts within Strathclyde reflecting data availability, and considers the following factors:

- proportion of households which are single;
- proportion of local income from rebates;
- average rateable values.

If the arguments about household composition are correct, we would expect areas with higher proportions of single-person households to gain from the change-over. Similarly, given the arguments that low-income households would gain from the reforms, we would again expect to find districts with higher proportions of rebate income to benefit. Finally, the arguments about the relativity of rateable values is such that we would expect districts with higher levels of average value to gain, whilst districts with lower levels of average value to lose. The net tax changes used in the analysis are set out in Table 4.4.

We then sought to examine the effect of the incidence of *single-person households* on the pattern of tax change. As a group, these were expected to gain most from the reforms. Table 4.5 illustrates the disparity in the

incidence of single-person households between districts within Strathclyde, varying from 17.6 per cent of households in Strathkelvin to 31.7 per cent in Glasgow. We then used regression analysis to examine the link between the incidence of single-person households and the degree of tax change (the measure used was net community charge/net rates). If there is a relationship then we would expect to find that tax gains would increase with the percentage of households occupied by single persons and this would manifest itself as a strong positive relationship.

In fact no relationship was revealed with an R^2 of only 8.43 per cent. The two districts which gained most, Bearsden and Eastwood, both have below average incidences of single-person households at 19.2 per cent and 20.8 per cent respectively. Indeed the biggest loser, East Kilbride, scored 20.8 per cent whilst the next biggest loser, Glasgow, had the highest incidence of single persons. No correlation therefore exists between the incidence of single-person households and the changing pattern of taxation in Strathclyde.

The second factor we examined was the *incidence of rebates*. The measure used was the income from rebates as a percentage of the gross community charge income. If the Green Paper analysis is correct, we would expect to find areas with a high incidence of rebates to gain since it was argued that the community charge was in fact more progressive than rates at low levels of income. There is a wide range of scores for this measure varying from a mere 6 per cent in Eastwood to a high of 26 per cent in Glasgow and Clydebank.

The regression revealed a positive correlation between the incidence of rebates and tax increases, contrary to expectations. Put more simply, areas with a high incidence of rebate *lost* from the change-over. The correlation of 51.2 per cent is significant at the 5 per cent level which is the reverse of what might be expected from the Government's analysis.

The other factor identified in the Green Paper as affecting whether households gained or lost from the change-over, is the *rateable value* of the property occupied relative to those of other properties. We examined the impact of this factor using average rateable values for each district. Districts with a higher incident of highly valued properties will have a higher average and vice-versa. Within Strathclyde, average rateable values ranged from £495 in Cumnock and Doon Valley to £1,069 in Bearsden and Milngavie. The regression test revealed a strong correlation ($R^2 = 71\%$) between the average rateable value of a district and its tax reduction as predicted by the Government. In short, the occupants of more highly-rated housing gained most from the introduction of the community charge.

We utilised five other relevant indicators to try and identify the types of area most affected by the reforms:

Table 4.6: Socio-Economic Indicators for Strathclyde Districts

	SP	AD	SPH	ELD	HT
Argyll and Bute	43.2	4.2	4.9	18.6	26.0
Bearsden and Milngavie	0.4	0.0	2.0	13.5	11.7
Clydebank	0.3	44.8	7.8	17.0	73.8
Clydesdale	27.0	6.2	4.2	14.9	48.7
Cumbernauld and Kilsyth	3.4	17.4	5.5	10.4	58.8
Cumnock and Doon Valley	12.6	24.4	5.4	15.2	69.2
Cunninghame	6.1	27.5	7.2	15.2	52.4
Dumbarton	6.5	22.8	5.8	15.1	46.3
Eastwood	2.1	0.0	1.8	14.4	8.5
East Kilbride	5.7	4.7	4.2	11.8	50.3
Glasgow	0.1	48.2	8.1	18.6	58.8
Hamilton	4.1	34.0	5.6	14.0	58.6
Inverclyde	2.4	35.5	6.3	16.9	55.1
Kilmarnock and Loudon	7.7	15.3	6.0	16.2	56.5
Kyle and Carrick	11.1	11.2	4.3	17.2	41.4
Monklands	1.6	53.4	6.7	13.6	76.9
Motherwell	1.4	42.7	5.8	16.0	75.3
Renfrew	2.3	25.9	6.1	15.0	52.8
Strathkelvin	3.4	13.3	3.9	10.9	37.0

SP = Settlement Pattern AD = Area Deprivation SPH = Single-Parent Households ELD = Elderly Households HT = Housing Tenure.

Source: Data supplied by Strathclyde Regional Council

Table 4.7: Correlations for Socio-Economic Indicators with Tax Change

Indicator	R ²
Settlement Pattern	4.2
Area Deprivation	23.8
Single-Parent Households	37.3
Elderly Households	2.0
Housing Tenure	58.3

- Settlement Pattern: a measure of urbanity/rurality based on population size (the percentage of the population living in settlements smaller than 1,000);
- Area Deprivation: a weighted score used by the Scottish Office to measure multiple deprivation;
- Single-Parent Households: A direct measure of deprivation which affects a single group and is used in the Urban Programme;
- Elderly Households: The percentage of elderly households in the population;
- Housing Tenure: the percentage of households living in public authority housing.

These indicators are set out in Table 4.6:

We tested these factors against tax change through regression analysis, and Table 4.7 indicates the results.

These results suggest that no general switch between urban and rural districts in general has occurred within Strathclyde. This is in sharp contrast

to our findings in Highland Region and elsewhere which are considered below. The most rural authority, Argyll and Bute, certainly had the lowest average rateable value in the Region (£501) but it is only slightly less than Glasgow's £524. No clear urban and rural divide therefore exists in this region but ward level analysis suggests that remote rural areas within Strathclyde have had large increases in tax liability (Midwinter and Monaghan, 1990). Argyll's position was considerably improved, however, by the big increase in the uptake of rebates which followed the introduction of the community charge. This did not occur throughout the rest of the region.

The results confirm the clear shift from owner-occupied households which we and others have found elsewhere. (Midwinter and Monaghan, 1988; Paddison, 1989). There is a positive correlation between the incidence of public housing and tax increases. This is more marked than any of the three deprivation measures used, which again supports our view that the overall impact of rebates has been much less than expected by the Government. Nevertheless, areas with a higher incidence of deprivation and single-parent families did incur tax increases.

Our Strathclyde research indicates that whilst there was no general tendency for household taxes to increase with rurality, substantial tax increases were being faced in the most remote rural communities of the Region. More detailed analysis suggested that the effect will be more marked in other parts of Scotland (Midwinter and Monaghan, 1988; Midwinter, 1989a; Midwinter and Monaghan, 1990).

Prior to the reforms, one of the characteristics of rural areas was the high incidence of properties with low rateable values and the large number of crofts which were 50 per cent de-rated. This reflected their distance from service points. Before domestic rates were abolished, the Highlands and Islands had a distinctive rateable value pattern. In Scotland as a whole, only 5 per cent of domestic properties had rateable values below £300 but in all the districts within Highland and in all the island areas this figure is exceeded. In Orkney, some 45 per cent of properties are valued at less than £300. Some 82 per cent of domestic properties have rateable values below £600 compared with the Scottish average of 51 per cent. In Shetland 79 per cent of properties are below this threshold and in Caithness the corresponding figure is 77 per cent. In contrast, 48 per cent of Scottish properties have rateable values in excess of £600. However, the majority of rural areas fall far short of this figure. In the Western Isles, only 5 per cent of properties are valued above £600 and in Shetland and Orkney the figure is only 10 per cent. In Highland, overall 31 per cent of properties had rateable values above £600 but in Sutherland District only 12 per cent of properties made it into this category and in Skye and Lochalsh only 14 per cent.

Table 4.8: Percentage of Domestic Households in Receipt of Housing Benefits, 1985-86

Highland	24
Orkney	16
Shetland	16
Western Isles	34
Scotland	40

Source: Rating and Valuation Association

In Scotland as a whole, only 1 per cent of domestic subjects are crofts or separately assessed caravans. In the Western Isles, 46 per cent of domestic subjects are so classed and in Skye and Lochalsh and Sutherland, the figures are 29 per cent and 21 per cent respectively. This suggested that more households would lose from the change-over in the Highlands and Islands except in Inverness and Nairn which come close to the Scottish norm in terms of both the incidence of low-valued properties, and of crofts. In several cases, such as Caithness, Skye and Lochalsh, Sutherland and the three islands, the difference from the national position is substantial.

Another significant feature of rural life is the relatively low rate of benefit uptake as indicated in Table 4.8. Here there is considerable variation from the national norm, with only the Western Isles approaching the Scottish average. This will result in less protection for those households facing higher tax increases. Because of the high incidence of low valued properties and crofts, and the low level of housing benefits, a high proportion of rural households will pay more taxation.

CONSUMPTION OF SERVICES

The Government have continually argued that the new system of local taxation would more closely reflect the consumption of services thus improving accountability. However, there are problems with this analysis since the new taxpayers are, in the main, spouses, the children of households, or the parent of the householder. In the case of the young adults, they actually consume very few local services directly. They will be out of school, seldom use social services and less likely to own cars and thus use roads, and so on.

It was argued in the Green Paper that at the turn of the century local authority services, consisting of gas, water and electricity, were primarily for the benefit of householders making a property tax appropriate. In recent years the emphasis has switched to more personal services the usage of which cannot be related to property making a household tax unfair. However, the classificatory scheme of beneficial and redistributive services used by the Government also presents difficulties. Very few local services are *beneficial* in the classical sense though services such as sewerage or refuse

collection can still be tagged as such. But what of protective services such as police, fire, consumer protection or environmental health? Economists argue that such services are justifiable charges to the public purse as they provide what they call 'external benefits', that is, indirect benefits to people who are not receiving the service. Most of us may have little contact with the police or fire service in our lifetime, yet derive indirect benefit from their provision. This is a far cry from the arguments made in the Green Paper whereby a benefit tax relates tax payments to service consumption.

Similar problems occur with personal services. Education is universally consumed until the age of 16 but many contribute to education who have no children. It is not redistributive in the classic sense of being a service to the poor. Some aspects of personal services are redistributive, for example free school meals or the provision of social work which are intended for people in need. Other services, such as roads, parks or libraries are used on demand rather than in response to need. When pushed, the simple classificatory scheme breaks down. The concept of a charge representing benefits consumed from local services does not stand up to serious analysis.

In a recent study of Cheshire County Council, Bramley *et al.* (1989) argued that the legitimacy of the poll tax, in terms of the government's objectives depends on the belief that the use of services is broadly the same across the population. They doubt this in terms of socio-economic status, and we would add our doubts in terms of age distribution. Their research was based on a survey covering roads, education, libraries and social work and showed that usage of such services rose substantially with socio-economic status. They argued that the average household in the top social group uses services nearly *twice* as much as a household in the lowest group.

In response to these observations, we examined the variations in service usage across the districts contained in Scotland's largest region, namely Strathclyde, which accounts for more than half of the Scottish population. Utilising appropriate socio-economic indicators, some of the key arguments for the poll tax were empirically investigated, using the following variables:

Average Rateable Value

This is a surrogate for relative wealth. If all groups use services in broadly equal terms, no systematic relationship between this variable and service uptake should emerge.

Households Receiving Housing Benefits

Many of the arguments against rates concentrated on non-payers or partial payers exercising a 'free-ride'. If this is the case, then districts with a high

Table 4.9: Explanations of School Usage Rates

	R ²	t-statistic
Average Rateable Value	55.2	4.58138
Housing Benefits	21.4	-4.41631
Area Deprivation	53.4	-4.41631
Public Housing	68.6	-6.02261

Table 4.10: Explanations of Road Usage

	R ²	t-statistic
Average Rateable Value	62.6	5.334
Housing Benefits	43.8	-3.643
Area Deprivation	78.9	-7.986
Public Housing	67.8	-5.988

proportion of such households can be expected to make greater use of services and overspend government targets.

Area Deprivation

Are areas with a higher percentage of people in need using more services?

Percentage of Public Housing

In previous research, it is apparent that areas with a high proportion of public rented housing lost considerably from the reforms. Given the Government's arguments, we would not expect to find any systematic impact in terms of service usage.

These indicators were correlated with measures of direct service usage, where these were obtainable. For education, a measure of Voluntary Returner Rates (children staying on at school aged 16 plus) was used. Car ownership was utilised as a surrogate for road usage. We used a measure of free school meals, based on the percentage of school children in a district receiving free meals.

The results of regressing the socio-economic indicators against voluntary returner rates is indicated in Table 4.9 and show that children are more likely to stay on at school after the age of 16 if they are from more highly rated properties – our surrogate for wealth. The results also indicate a negative relationship between school usage and both housing benefits and area deprivation. In other words, as the number of households receiving housing benefit and the level of deprivation in an area increase, the voluntary returner rate decreases. Staying on at school is strongly correlated to rateable values, which as we saw is the measure most associated with tax gains, but is negatively related to the public housing indicator.

Regression using car ownership, our proxy for road usage, revealed a

Table 4.11: Explanations of Free School Meal Uptake

	R ²	t-statistic
Average Rateable Value	49.0	- 4.048
Housing Benefits	58.9	4.937
Area Deprivation	74.2	7.001
Public Housing	57.3	4.779

similar pattern to that for school usage.

Once again there is a pattern of higher road usage in more affluent districts, and much lower usage in districts with high levels of housing benefits, deprivation and public housing. Free school meals is clearly a redistributive service intended to benefit the poor and needy and is demanded. Unlike the previous measures, we would expect to find higher uptake in poorer districts.

The results confirm our expectations. There is a correlation between uptake of free school meals and families receiving housing benefits and those living in areas of deprivation or in public housing. Less use of the services is made by families in wealthy areas.

These observations are not confined to Strathclyde. More generally, in the Scottish context, for example, some 46 per cent of local expenditure is on education but only 24 per cent of Scottish households contain school age children. Of those that do, the propensity to use the services rises with socio-economic status. In short, most households do not directly use the education service and those that do vary in their degree of usage.

For nursery education which is a more discretionary service, the evidence is again of minority consumption. Only 12 per cent of the pre-5 age group attend nursery school in Scotland. In examining services for the elderly, a similar pattern of minority consumption takes place. In Scotland, local authorities currently provide only 50 sheltered and amenity houses per 1000 elderly, only 20 people per 1,000 elderly receive meals-on-wheels, only 9 people per 1000 elderly are provided with a day centre place and only 107 people per 1,000 elderly receive a home-help. Previous studies of library usage suggest minority consumption varying with socio-economic status in a similar fashion to our evidence on education (Totterdill and Bird, 1976).

Together, these findings question the realism of the underlying assumptions of the poll tax reforms. In many services, direct benefit in the form of consumption is impossible to measure. For the so called people-based services such as education and roads, there is strong statistical evidence of greater service usage by more affluent households and lower usage by poorer households. Only in minor redistributive services do the less well off have a

greater consumption of the service. Our research shows therefore, that the arguments about benefits and accountability have little empirical support.

TAX REFORM AND LOCAL SPENDING

The success of local government financial reforms in meeting the Government's objective of improved accountability was dependent on the capacity of the new system to isolate marginal expenditure (spending in excess of Grant Aided Expenditure) and the degree to which spending decisions taken by authorities are reflected in the tax bills faced by the electorate. In practice, there are three key factors which constrain the capacity of the system from operating in this way:

- the grant system is not sufficiently sophisticated to allow authorities to spend at similar levels to provide the same service. Differences in expenditure can consequently reflect differences in the need or cost of providing services. Indeed, if all authorities spent at their needs assessment, considerable variations in services received would still occur;
- the link between budgets, grants and taxation is not as systematic or comprehensive as assumed by government;
- financial and technical factors other than spending decisions enter into the budgetary process.

The old Rate Support Grant had three components: domestic, resources and needs elements. The domestic element sought to compensate for the differences in the rates resources of authorities by allowing them to raise a common poundage in rates per head of population. The needs element was designed to equalise the varying levels of expenditure need so that all authorities could provide a similar standard of service at a similar cost per head. It was distributed on the basis of client group assessments of relative expenditure need which were built up service by service. These sought to identify need and cost factors which were out of the control of authorities. Grant was distributed so that after needs element, a similar amount remained to be financed from rates.

Within the new system of grant allocation, the Government remains committed to the principle of evening out the amount which authorities have to spend to provide a reasonable standard of service. However, the new system is intended to be simpler than its predecessor enabling a more direct link between spending changes and changes in local taxation to be established.

There are now only two major components of grant:

- a **needs** grant to compensate authorities for differences in the cost of providing a standard level of service in different authorities;
- a **standard** grant representing a uniform level of contribution towards the cost of local services.

The rationale contained in the Green Paper for making contributions on a per adult basis is that this will produce an equal reduction in the size of the community charge which authorities need to levy to finance their spending.

The new approach places much emphasis on the proper development of needs assessment techniques for the needs grant. In Scotland this remains based on the client group assessment of relative expenditure need which the Scottish Office regard as 'a simple and defensible way of estimating expenditure need' (Midwinter, Mair and Ford, 1987b). But as Bennett points out:

Assessment of differences in the expenditure need position of local authorities is perhaps the major research problem in analysing local government finance and central grants. The difficulties which impede the solution of these problems are that there are as many ways of assessing need as there are values as to what public goods should be provided in any area and in what quantity. (Bennett, 1982, p. 134)

Under the client group method, services, and in some cases parts of services, are examined separately. A client group is defined for each component of a service and the predetermined level of expenditure is then distributed amongst authorities according to the number of clients in that authority for that service. This is achieved by multiplying the number of clients in an authority by the average expenditure per client based on the national figure in the RSG provisions. Originally known as the client effect this was changed in recognition of the fact that a clearly defined client for each and every service was not achievable (the client for police services is the number of policemen employed) and it is now more appropriately referred to as the *primary indicator*.

However, adjustments are also made to reflect any special circumstance which could affect the cost of providing the service. Initially, this was labelled the cost effect but this was changed to secondary effect in acknowledgement that some of the indicators used were in fact need rather than cost effects. The *secondary indicator* effect is calculated from the incidence of the chosen variable relative to the average, by correlating these with past expenditure. The application of secondary indicators redistributed only 4 per cent of total expenditure in its year of introduction, 1982-83. In 1990-91, 2.6 per cent of regional expenditure was redistributed using secondary indicators and 2.9 per cent of district expenditure.

Secondary indicators are tested by regression analysis and only included where the statistical relationship:

- is a plausible cause of expenditure variation;
- persists over time;
- is a variable outside authorities control and not the result of local policy decisions.

Whilst the Scottish Client Group Approach has gone some way to achieving the goal of allowing all authorities to provide a comparable level of service at a similar cost, it is not without its problems and it has conceptual and measurement difficulties which are similar to other models of needs assessment. Detailed critiques of the Scottish approach are outlined elsewhere (Midwinter and Franklin, 1982; Midwinter, 1984a; Midwinter, Mair and Ford, 1987b) but there are a number of areas within the context of needs equalisation which are worthy of note.

In terms of needs equalisation, a major area of difficulty lies in the *application of secondary indicators*. In particular, adjustments are confined to factors which affect expenditure generally but differences in expenditure need can arise from distinctive local characteristics. A weakness of the Scottish Client Group Approach, therefore, is its inability to deal with specific factors which apply in only a handful of authorities.

Secondly, the use of regression raises questions concerning the *validity of the analysis* for regional services because of the limited number of data points. The small number of observations makes the findings extremely vulnerable to random fluctuations in data. In the Scottish context, there are only twelve regions for analysis and often the islands are excluded reducing this to nine. Correlations from such a small sample can be attributable to random influence. In theory, the notion that secondary indicators should be plausible before being tested goes some way to addressing this problem but in reality the strength of the correlation may be affected by chance and/or other variables and factors which influence both the primary and secondary indicators. As Jackson has observed:

narrow database often proves incapable of identifying robust statistical relationships for indicators which satisfy the other tests. Since genuine differences in need requiring secondary treatment are acknowledged to be present, this generates strong pressure to manipulate the data to produce an acceptable statistical fit, at whatever cost to the credibility of the approach. (Jackson, 1989, pp. 39–40)

It is a central tenet of the client group approach and indeed grant distribution that authorities ought not to receive higher assessments as a result of their own decisions about levels of provision and therefore expenditure. However, there is a lack of rigour in treatment of the *standards/discretion* issue. The client group method correlates broad indicators with aggregate spending. In order to ensure an equitable distribution of resources on the basis of relative need, a clear separation of policy/need/cost factors is needed to ensure that higher spending does indeed reflect higher needs and/or costs. In only a few treatments – for example, education and police – is explicit account taken of standards and service levels. In the main, discretion is treated as a residual

(that which other factors cannot explain). Where account is taken of service levels in the primary indicator assessment, then correlations with past expenditure for secondary indicators have some validity but it is erroneous to equate average expenditure with average standards as is implicit in the current method of grant distribution. Therefore an explicit objective of grant support, similar services for a similar tax, is not fully met in the client group approach. Given the limited attention paid to standards of service provision, no distinction between discretionary and non-discretionary spending variations can be drawn for most service treatment. This makes one of the basic principles of the client group approach unattainable, namely that past decisions about provision (and thus expenditure) should not result in a higher assessment. In the absence of this condition being satisfied, needs equalisation is not possible.

These statistical problems demand *careful theorising* in justification of the indicator being tested, but this has not always proved to be the case. For example, in the treatment for school crossing patrols, it was argued that the greater volume of traffic in urban areas affected the need for such patrols. Testing of urban road mileage as a secondary indicator failed to produce the necessary correlation. Urban settlement pattern was then used, found to be statistically significant, and accepted for inclusion on the grounds that urban roads are busier. In short, an indirect measure was accepted when a more direct measure failed to produce the necessary evidence.

The client group use of regression is not, and cannot be, perfect, but it is capable of refinement and improvement in many respects. Indeed, if needs equalisation is to be achieved then such advancement is essential yet, in the Green Paper, the Government stresses the need for simplicity in grant calculations and airs concern about the increasingly complex nature of the assessments. Providing a standard level of service at a standard cost in all areas may sound like a reasonable proposition, but in reality it is exceedingly complicated and requires, amongst other things, effective needs assessment and subsequent equalisation. Given the large number of factors affecting expenditure, any system of grant allocation which fully addresses these, would have to be far reaching and comprehensive in its operation. In this context, simplicity seems an inappropriate goal. In practice, as Bailey has observed, 'a lump sum grant system based on a vague idea of minimum standards has been implemented without having to define or measure those standards' (Bailey, 1989, p. 24).

In short, needs assessment and equalisation is not as perfect and precise as would be necessary for a standard community charge to mean a standard service level. The complex nature of differences in needs between authorities means that this is unlikely to ever be fully achieved. The consequence under

Table 4.12: Budgets and Taxes in Scottish Regions, 1990-91

	Budgets (£ per Capita)	Tax Levels (£)
Borders	756.07	208
Central	711.81	242
Dumfries and Galloway	728.53	223
Fife	761.29	263
Grampian	665.18	209
Highland	873.75	216
Lothian	730.31	330
Strathclyde	761.00	246
Tayside	735.69	246

*Source: COSLA**Table 4.13: Overspending and Tax Increases, 1990-91*

	Overspending (%)	Tax Increases (% over 1989-90)
Borders	- 1.85	1.4
Central	+ 4.73	13.6
Dumfries and Galloway	- 3.33	17.7
Fife	+ 10.33	10.5
Grampian	- 3.73	- 4.6
Highland	+ 1.78	8.0
Lothian	+ 13.81	8.2
Strathclyde	+ 4.32	12.3
Tayside	+ 3.45	2.1

Source: Rating Review

the new system of local government finance, is that discrepancies will be passed onto chargepayers and the gearing effect means that increases (or decreases) will be disproportionately large.

The capacity of the community charge system to isolate marginal spending is further constrained by the fact that the link between budgets, grants and taxation is neither systematic nor comprehensive. Expenditure and taxation levels are indicated in Table 4.12 but the grant system prevents there from being a close correspondence between these two variables. High spenders in absolute terms can have low tax levels (for example, Highland) whilst low spenders can have high tax levels (for example, Lothian). However, the premise underlying the accountability objective being pursued by Government requires that there be a clear link between spending increases and tax changes.

Whilst budgetary growth cannot be ignored, if the Green Paper analysis is correct then any local expenditure above centrally assessed need should result in highly perceptible tax increases. Table 4.13 sets out local tax and overspending data.

The table suggests that no systematic relationship exists. Lothian overspent by nearly 14 per cent yet incurred a tax increase similar to Highland

Table 4.14: Explanations of Tax Change, 1990-91

Variable	R ²
Budget Growth	0.9%
Grant Change	16.9%
Changes in Needs	1.2%

whose overspend was less than 2 per cent. Dumfries and Galloway underspent yet incurred the highest tax increase whilst Grampian who also spent below assessment had a reduction in their tax levels. We tested the impact of overspending on tax changes using regression analysis. If a general relationship existed then this would manifest itself in a high R² but if there is no link, then we can expect to find a low R². The regression test revealed a low R² of 7 per cent.

We explored the link between budgets, grants and taxes further by testing three more independent variables against tax change:

- budget growth: did authorities with high budget increases incur high tax increases?
- grant change: are authorities with higher grant increases in a better position to contain tax increases?
- changes in need: do authorities with increased needs assessment spend more and thus increase taxes?

The statistical findings are recorded in the table above and reveal the absence of any relationship.

In view of the range of factors involved in tax setting, we did not expect to find grants, budgets and spending coherently related as implicit in the Government's analysis and the evidence so far suggests that they are not.

Implicit in the Government's assumption that marginal expenditure changes will be transformed into increases in tax levels, is the view that spending decisions are the only significant factor entering the budgetary process. The reality of local government finance is much more complex than this. Many other financial and technical decisions affect local tax levels.

Central Government uses a different technical basis when making expenditure assumptions. They plan on a cash basis which has an unspecified provision for inflation. Local authorities, however, still operate volume planning, whereby they cost the current volume of services, new developments and inflation separately. Regional council's assumptions about inflation for financial year 1990-91 varied considerably with Grampian's 5.5 per cent and Highland's 8 per cent marking the extremes. John (1991) argues that in a few councils there was political pressure to have a low estimate of inflation to produced a desirable level of community charge. Variations in inflation assumptions will lead to variations in tax levels.

Councils must also when setting budgets make an assessment of tax yield,

Table 4.15: Non-Collection Levels

	1989/90 (%)	1990/91 (%)
Borders	5.2	10.3
Central	9.9	18.8
Dumfries and Galloway	7.0	13.4
Fife	8.3	14.5
Grampian	8.4	13.7
Highland	8.7	17.6
Lothian	16.2	24.8
Strathclyde	16.6	33.7
Tayside	12.1	21.4
Orkney	3.0	9.5
Shetland	3.3	11.0
Western Isles	12.2	29.2
Scotland	13.7	25.7

Source: COSLA News Release, 1991

more appropriately known as an estimate for non-collection, and this is also subject to variation. In 1990–91, the Borders allowed for 3 per cent non-collection whilst in Grampian the estimate was 7.5 per cent. In the event, these proved to be optimistic as can be seen from the Table 4.15 which sets out actual rates of non-payment to date.

The use of balances or elimination of deficits in local budgets is a further recurring but complicating feature in the budgetary process. Budgets are estimates which inevitably vary at outturn, leaving some authorities with unspent monies (balances) which can be held in reserve or used to reduce tax demands in the following years, and others with deficits, expenditure above budgets which requires to be financed by local taxation in the following year. The level of balances applied and the effect this had on the community charge in 1990–91 is indicated in Table 4.16. Except in Orkney, deficits required to be financed in 1990–91 thereby increasing the community charge by as much as £37.12 in Highland and by £26.36 and £25.12 in Fife and Lothian.

THE IMPACT ON ELECTORAL BEHAVIOUR

In May 1990, the first electoral test under the new tax system took place. The opposition parties all made the tax itself, and strategies for defeating it, an electoral issue. Only the Conservatives focused on tax levels as a local political issue. In Lothian, for example, they promised a £100 cut in Edinburgh if elected (*Glasgow Herald*, 24 April 1990) whilst in Tayside the promised reduction was £50 (*Scotsman*, 18 April 1990).

The high profile given to local fiscal reform, and the increased number of local taxpayers might have been expected to result in more electors casting their votes on election day. Public opinion surveys suggested that 48 per cent

Table 4.16: Use of Balances, 1990-91

	Balances Applied (£s)	Community Charge Equivalent (£)
Borders	1,381	17.86
Central	3,282	16.57
Dumfries and Galloway	0	0
Fife	6,900	26.36
Grampian	154	0.42
Highland	5,465	37.12
Lothian	14,400	25.12
Strathclyde	28,506	16.54
Tayside	4,455	15.48
Orkney	- 24	- 1.66
Shetland	0	0
Western Isles	157	7.06
Scotland	64,676	17.02

Source: *Rating Review*

of Scots felt that the poll tax was one of the main issues in Britain. However, the issue had little impact on turnout which only marginally increased on 1986 levels. In Lothian, where tax levels were prominent in the political rhetoric surrounding the election campaign, the turnout actually fell from the last regional election. It is, however, the only Scottish region in which more than half the electorate voted.

Neither was there any systematic link between turnout and local authority finances. Lothian and Fife are the regions with the highest community charges (£330 and £263 in 1990-91) and the greatest degree of overspend (13.8 per cent and 10.3 per cent) yet in both these authorities the proportion of the electorate casting their votes fell.

Analysing the voting behaviour is complicated in Scotland by the survival of Independents in local politics. Independents dominate in the three main-land rural regions and the island councils. Moreover, the situation is further complicated by the existence of a majority coalition in Grampian.

However, the voting issue can still be examined and is looked at at two levels. We can focus on the electoral performance of Labour where they had formed the administration in the last councils (1986-90) and thus fixed budgets and tax levels. Secondly, we can examine the performance of the Conservatives who consistently campaigned for lower tax. If the Government's analysis is correct, we would expect to see electoral performance varying systematically with tax levels, with high increases or levels of taxation resulting in a loss of support for ruling Labour groups in favour of the Conservative party.

The percentage change in votes for a party (compared with the 1986 election) has been used in the analysis but as can be seen from Table 4.17, in the regions considered, there is no clear impact on seats held.

Table 4.17: Percentage Change in Votes and Changes in Seats Held, 1990

	Labour		Conservatives		Democrats		SNP	
	%	Seats	%	Seats	%	Seats	%	Seats
Central	-2.7	-1	+7.2	+1	-2.5	—	-4.7	+1
Fife	-0.8	+1	+2.2	-2	-0.5	+4	-3.1	-1
Lothian	+0.4	+2	+2.2	-1	-8.1	-1	+5.5	—
Strathclyde	-0.3	+3	+2.4	-1	-8.4	-1	+3.7	-1
Tayside	-1.2	-2	+1.5	+1	-3.6	+1	+3.1	+1
Scotland	-1.3	+9	+2.5	-10	-6.5	+3	+3.6	+2

Source: Constructed from data in *Glasgow Herald* and *Scotsman*, May 1990

In three of the five Labour controlled authorities, the Conservatives increased their share of the vote in excess of 2 per cent yet saw a fall in the number of seats held. In Fife and Strathclyde, Labour proportionally lost votes but gained seats. These apparent anomalies can in part be explained by the fact that has not been taken of changes in the number of candidates fielded. Although throughout Scotland the Conservatives saw a 2.5 per cent increase in their share of the vote, they had 320 candidates standing compared to 259 in 1986, a rise of 23.6 per cent. Their increase in votes, therefore, is not surprising and indeed well below what should be expected given the rise in the number of candidates and they did in fact suffer a net loss of ten seats. Correspondingly, Labour gained nine seats despite a 1.3 per cent drop in votes.

It has already been argued that if the analogy between elections and markets is correct then votes should be lost in administrations which incur high tax levels and overspend. To examine the validity of this argument we ranked the Labour-controlled authorities in descending order of poll tax levels and alongside these matched the voting patterns for the four main political parties.

There are too few data points to test for statistical correlations but there is limited evidence of a discernible pattern and if anything the reverse of expectations. Lothian has the highest local tax level yet saw a 0.4 per cent increase in Labour's share of the vote. Of the authorities considered here, Central has the lowest community charge at £242 yet witnessed the most substantial drop in Labour vote (-2.7 per cent) and the biggest increase in votes for the Conservatives (+7.2 per cent). There is no connection between tax levels and changes in votes for the Democrats and the SNP.

Since it may be tax increases which have the greatest impact on voting behaviour, the information is presented overleaf. Only in the case of the Conservative vote is there slight evidence of a trend, but part of this will be due to the increased number of candidates. The pattern does not hold for Labour. The year on year change in community charge is greatest in Central where it was 13.6 per cent higher in the financial year 1990-91 compared to

Table 4.18: Community Charge and Percentage Change in Votes, 1990

	Tax (£)	Labour	Conservatives	Democrats	SNP
Lothian	330	+ 0.4	+2.2	- 8.1	+ 5.5
Fife	263	- 0.8	+2.2	- 0.5	- 3.1
Strathclyde	246	- 0.3	+2.4	- 8.4	+ 3.7
Tayside	246	- 1.2	+1.5	-3.6	+3.1
Central	242	- 2.7	+7.2	- 2.5	- 4.7

Source: Electoral Data derived from *Glasgow Herald* and *Scotsman*, May 1990

Table 4.19: Community Charge Increases and Percentage Change in Votes, 1990

	% Change	Labour	Conservatives	Democrats	SNP
Central	13.6	- 2.7	+ 7.2	- 2.5	- 4.7
Strathclyde	12.3	- 0.3	+ 2.4	- 8.4	+ 3.7
Fife	10.5	- 0.8	+ 2.2	- 0.5	- 3.1
Lothian	8.2	+ 0.4	+ 2.2	- 8.1	+ 5.5
Tayside	2.1	- 1.2	+ 1.5	- 3.6	+ 3.1

Source: Electoral Data derived from *Glasgow Herald* and *Scotsman*, May 1990

Table 4.20: Overspending and Percentage Change in Votes, 1990

	% Overspending	Labour	Conservatives	Democrat	SNP
Lothian	13.8	+ 0.4	+ 2.2	- 8.1	+ 5.5
Fife	10.3	- 0.8	+ 2.2	- 0.5	- 3.1
Central	4.7	- 2.7	+ 7.2	- 2.5	- 4.7
Strathclyde	4.3	- 0.3	+ 2.4	- 8.4	+ 3.7
Tayside	3.5	- 1.2	+ 1.5	- 3.6	+ 3.1

Source: Electoral Data derived from *Glasgow Herald* and *Scotsman*, May 1990

1989-90. In this region, Labour's vote fell by 2.7 per cent and the Conservatives rose by 7.2 per cent. We would also note that the then Chairman of the Scottish Conservative Party, Michael Forsyth MP, a leading supporter of the community charge, sits for the Stirling constituency and had a high profile role in the election campaign. However, in Strathclyde the charge rose by 12.3 per cent but the changes in share of the vote were -0.3 per cent and +2.4 per cent for Labour and the Conservatives respectively. The relationship cannot be regarded as deterministic. The vote shares for the Democrats and the SNP move erratically in comparison with increases in local taxes.

The Government also argued that administrations which overspent would lose votes. It is to the issue that we now turn.

Lothian overspent by the greatest degree yet it saw the ruling Labour group's vote rise (+0.4 per cent). The increase in Conservative vote is greatest in Central but overspending is only 4.7 per cent in this region. There is no evidence of a systematic relationship between overspending and voting and indeed the changes in the other four authorities are all around 1 per cent in the case of Labour and 2 per cent in the case of the Conservatives, compared with 1986.

The absence of relationship between the measures analysed here and voting behaviour does not surprise us. There is strong evidence that explanations of voting behaviour are much more complex than the motivation of electors in political markets (Miller, 1988). There is no price tag on election manifestos and often the tax implications of electoral choice are not clear to voters. In the absence of this assumed catalyst for change it is not surprising to find little evidence supporting the assumptions underpinning the Green Paper.

CONCLUSIONS

The Abolition of Domestic Rates Etc (Scotland) Act 1987, introduced a radical new system of local government finance to Scotland. This system was intended to isolate authorities spending above Government guidelines and force councils to pass this marginal expenditure onto chargepayers. With all the electorate now incurring some local tax liability, the mismatch between those who vote for, those who pay for and those who receive local government services should be diminished.

At all levels, the analysis was over-simplistic. The budgetary process within local authorities is exceedingly complex and there are a number of factors, not least the Government's own Revenue Support Grant, which prevent marginal spending from being isolated in the way outlined in the Green Paper. Secondly, there is little evidence that the electorate regard the ballot box as a means of voting for service packages with price tags. The first electoral test of the community charge suggests that voting patterns were little affected by the introduction of the reforms. There is similarly an absence of evidence supporting the view that the new taxation system more closely reflects the services consumed by individuals.

The government's argument that the rebate system would protect low income households is not supported by the evidence. There was a clear shift in tax liability from owner-occupiers to those in public housing. Rural areas have been severely affected by the introduction of the poll tax. However, the new financial structure means that inhabitants of rural areas must pay the same as those living in more urban parts.

The objectives of the new tax system have not been met and the consequences of implementing the reforms have differed from those expected by Government. Administrative complexities have been considerable. Many of these are attributable to the speed at which the legislation was introduced in Scotland which was too fast to allow computer systems to be adequately checked. The near doubling in the number of local taxpayers made the scale of operations difficult to manage, a problem which could have been partially

removed by instigating full rebates for those on low incomes and students. Recovery procedures are insufficiently developed to cope with the workload, a difficulty which is emphasised by the meagreness of a large number of the debts. The political climate surrounding the poll tax has not helped particularly with regard to the use of warrant sales for arrears pursuance.

The weak diagnosis of the initial problem, if indeed a problem existed, has led to the implementation of a wholly inappropriate local taxation structure. The failure of the community charge has stemmed as much from a misunderstanding of the problem in the first instance as to the extreme over-simplification of the issues involved in local government finance. This failure has led the government to abandon the community charge, and introduce a new council tax in its place.

The Politics of Efficiency

THE EFFICIENCY AGENDA

Value for money (VFM) auditing and the use of performance indicators are two subjects currently commanding considerable attention within local government. Despite this recent interest, VFM appraisals are not new and various forms of evaluation have been used for some time throughout the public sector. During the 1960s and up until the late 1970s, Programme Planning and Budgeting Systems, Management by Objectives and Zero-Based Budgeting were developed and applied in some local authorities to allow better appraisal. A number of committees reporting between 1967 and 1976 (the Maud, Bains and Layfield Committees), stressed the importance of obtaining value for money in local services and considered stringent financial controls essential if this objective were to be met. The result of these reviews and with central government's general concern about efficiency, is the statutory obligation now imposed on external auditors of local authority accounts, to ensure that proper arrangements for achieving value for money have been made. This chapter reflects the revival in interest in the efficiency field and the need for research into a number of key issues. We begin by outlining the background to the introduction of this type of auditing and consider the legislative basis of VFM and the role played by the Accounts Commission. We then consider the operationalisation of the efficiency strategies. A preliminary survey of local authorities' responses to the auditors new duties has been conducted and the findings of this are summarised. Finally, we conclude by highlighting some of the problems which have impeded the development of value for money auditing and the use of performance indicators to date.

The need for efficiency in the public sector has been a central theme of the 1980s. As Graham Mather has said (of):

the Thatcherite commitment to better value for money. It is a straightforward concept, based on the underlying premise that monopoly services provided free at the point of consumption and untested by competitive forces are unlikely to be efficient in the medium and long-term; that they

are likely to perpetuate restrictive practices and producer-led service delivery; and that they entangle the interests of those specifying the services (the authority) with those providing them (the direct employees of the authority, who are also policy advisors and quantity controllers). (Mather, 1989, p. 213)

However, as has already been mentioned, concern with public sector efficiency predates Thatcher. In 1974, the organisation of the National Health Service was reformed, with some functions, notably public health, absorbed by local authorities primarily with the objective of making the NHS more efficient. In the mid-1970s, a National Economic Development Office enquiry concluded that nationalised industries were not run in a way that was conducive to efficiency. A White Paper followed in 1978 outlining perceived solutions, but the new administration came into power before these could be enforced. Harrison, however, has noted that, 'The assumption appeared to be that if the structure was right, efficiency would follow' (Harrison, 1989, p. 144).

Concern with value for money was often confined to reviews of how structure could be revised to enhance efficiency. For example, in the early 1970s, many small local authorities were reorganised into larger units and one of the most widely adopted recommendations of the 1972 Bains report was the appointment of chief executives which it was hoped would facilitate the development of a more efficient management structure.

There is evidence of an awareness of financial matters, as expressed by the 1967 Management Committee: 'Authority is hampered by having to deal with services to which ... accounting, costing and other numerical tests of success or failure are of only limited significance. The temptation to ignore financial considerations is therefore very great' (Management Committee, quoted in Jowett and Rothwell, 1988, pp. 22-23). But primarily, the focus or at least the policy prescriptions centred on structural reforms with any financial orientated policies such as PPBS and ZBB proving unsuccessful.

The Thatcher Government, however, began with a public choice critique of bureaucracy and democracy which assumed the system was wasteful and inefficient in contrast to the private sector. Greater control of spending, greater use of competitive tendering, greater diversity of choice, were all preferred to monopoly provision financed through public budgets. Moreover, greater efficiency was also to be achieved through the development of more critical appraisals of performance, through VFM and performance indicators:

The Prime Minister offered active, sustained support for managerial reform throughout government, central to which was the wider use of performance indicators. Although the government was breathing new life

into old ideas – ideas previously popular in the 1960s – the enthusiasm was unprecedented and infectious. (Carter, 1991, p. 85)

In the 1981 White Paper dealing with the Civil Service (Cmnd 8293), it said that the new administration, 'took office determined to improve the efficiency of the Civil Service, to eliminate waste and to promote methods of administration which enable and encourage staff to give the best possible value to the taxpayer' (quoted in Harrison, 1989, p. 144). It was some little time before such ideas were pushed beyond that domain into local government. The Thatcher administration regarded the private sector as inherently more efficient than the public sector and many of its local government policies were designed to stimulate an environment similar to that which prevailed in non-public organisations. In many respects, value for money is intended to parallel profitability or the profit criteria faced by the private firms and is a means of judging performance in organisations with a 'social' remit.

Additionally, VFM also allowed the new government to call for public expenditure cuts without necessarily eroding services. Financial savings could be delivered without depleting service levels through efficiency improvements. This latter role was facilitated by the politically irresistible tag 'value for money'. It was difficult to oppose the concept of VFM without seeming to advocate or at least defend waste and inefficiency.

Britain was in many ways, only following a path that had been taken by many other countries, such as Canada, the United States and Sweden. Hopwood has suggested that, 'Familiarity with experience elsewhere should instil a greater realisation of the differences between what should be done and what is said to be done, and what is done and what might be done' (Hopwood, 1982, p. 43). Despite the wealth of experience, however, there has been no standard approach which adequately covers the varied aspects of value for money auditing and, from a practical perspective, Britain has done little to amend this situation.

The value for money reforms were undertaken in a period of economic recession and there is a tendency for them to be viewed as a cost-cutting exercise. The Audit Commission have clearly stated that this is not their objective:

the Commission will not be judging its performance against local authority spending levels since this would be incompatible with its stated mission of helping authorities to improve returns on their annual investment and, in any case, any cost reduction will not be achieved by the Commission but by members and officers of authorities demonstrating the will to manage. (Audit Commission, 1983, p. 17)

But because it was introduced in a period characterised by failed attempts at

public expenditure cuts, vfm auditing smacks of fiscal constraint. The requirement of the Local Government Planning and Land Act (1980) that local authorities should produce an annual report informing ratepayers of expenditure for example, did not result in the anticipated stampede of irate local residents demanding efficiency improvements nor embarrassed councillors embarking on cost-cutting exercises. The Audit Commission's initial claim of having identified £492 million potential savings did little to dispel the 'belt-tightening' myth. Holtham and Stewart consider this irrelevant:

We see the new concern as arising in an era of restraint, but see that the case for value for money stands apart from the political stance taken – whether it is for or against cuts in local government expenditure. Value for money is justified whatever level of expenditure is aimed at. (Holtham and Stewart, 1981, p. 3)

However, this is indicative of the difference between the politically desirable principle of vfm auditing and the reality of auditors being assigned a hitherto unaccomplished task, using vague and uninterpretable definitions in an environment characterised by organisational complexity.

In its guidelines issued to auditors, the Accounts Commission suggested that 'the derivation of performance indicators and subsequent monitoring of actual performance' should form part of the process adopted by auditors in developing a methodology for conducting auditing studies (Accounts Commission, 1988a). The majority of the literature in the vfm field has centred on the use and abuse of performance indicators (pis). This reflects the relative ease of setting and monitoring pis however ill-defined, inappropriate or inadequate. In an attempt to be seen to be responding promptly to the vfm remits; auditors, authority officials, consultants and commentators alike, have directed their energies into the most tangible element of the reforms, with the result that performance indicators have a high profile in the vfm field.

Those who view value of money as purely a cost-cutting exercise consider performance appraisal as the means by which fiscal constraint can be implemented or at least justified. Others consider performance assessment an essential part of accountable management (Jackson, 1988). High performance, Jackson claims, is inextricably linked to management throughout the organisation having clear objectives, with the emphasis not on activities but rather on outcomes. It is not sufficient for each individual to know what is expected of them. Accountability demands that they be held responsible for the achievement (or otherwise) of their goals and as organisational studies have demonstrated, morale and commitment is improved if individuals successfully achieve these (Goold and Campbell, 1987). However, within this process, as Norman Flynn has observed more generally:

decisions about what to measure and what use is to be made of the measurement have been treated as if they were technical questions with no political implications ... Performance measurement has led to a concentration on both what is easily measured and what is susceptible to narrowly defined efficiency changes. (Flynn, 1986, p. 389)

Butt and Palmer (1985) on the other hand view performance measurement in local government as a proxy for the profit criteria in the private sector where profitability tends to be the overriding factor with performance appraisal taking a back seat. In practice, profit information in business comes a long time after the events which generate them and thus private sector managers also require a series of indicators to judge performance before accounts are finalised (Jackson, 1988). But, one of the distinguishing features between private and public sector organisations is that the latter have a 'social' remit and are responsible for the delivery of *services* for which individual clients are not charged in direct relation to and at the point of consumption. This makes quantification of inputs and outputs more problematic for local government when social costs and benefits should be considered. Normally usage is a reflection of demand but in the public sector it often reflects availability and accessibility. There are no social workers for example, without a full case load but there may be individuals in need of the service who are not receiving it.

So what is meant by VFM in Local Government? Although the three 'Es' are prescribed in the Local Government Act 1988 (in the Scottish context), their detailed criteria are in fact defined by the Accounts Commission in guidelines issued to auditors. The criteria are defined as follows:

Economy – the terms under which the authority acquires human and material resources. An economical operation acquires these resources in the appropriate quality and quantity at the lowest cost;

Efficiency – the relationship between goods and services produced and resources used to produce them. An efficient operation produces the maximum output for any given set of resource inputs; or, it has minimum inputs for any given quality and quantity of goods produced or services provided;

Effectiveness – how well a programme or activity is achieving its established goals or other intended effects. (Accounts Commission, 1988a)

The Commission considers that 'the achievement of economy, efficiency and effectiveness depends upon the existence of sound arrangements for the planning, appraisal, authorisation and control of the use of resources' (Accounts Commission, 1988a). At first glance such a position sounds desirable and uncomplicated, but as McSweeney has pointed out, 'the

criteria ... are complex, and their use for auditing and managerial purposes is often problematic, indefinite and capable of different and conflicting interpretations' (McSweeney, 1988, p. 32). There is clearly a gap between theory and practice.

THE STATUTORY BASIS OF VFM

At a symposium on value for money and effectiveness auditing in the public sector in 1983, the then controller of audit at the Accounts Commission, James Troman, said of making vfm the statutory responsibility of local authority auditors:

In my view these are retrograde steps as we are beginning to define 'audit' within the statute and this could have the effect of inhibiting what is, and should continue to be, a dynamic and continuously evolutionary process. I hope, therefore, that this duty of the audit is not introduced into Scottish legislation and that we can continue to regard vfm as an integrated part of the audit of public sector bodies without such statutory specifications. (Troman, 1984, p. 25)

Contrastingly and quite significantly, by 1986, Bob Simpson the new controller of audit felt that a statutory basis for work was required: 'It is not appropriate to struggle along on a grace-and-favour basis'. (Simpson, 1986, p. 20). It was felt that differing statutory provisions between the Audit and the Accounts Commission (pre-1988 legislation) had resulted in dramatic variations in results:

The Audit Commission has been strident, controversial, demonstrably independent and has achieved a high profile. It has spent a great deal of money and has identified considerable potential for savings ... The Accounts Commission by comparison has been restrained, non-controversial, has adopted a low profile and has spent very little. The impact accordingly has been limited'. (Simpson, 1986, p. 20)

It is ironic in an organisation concerned with economy, efficiency and effectiveness that success is in some way equated with the amount of money spent. Equally, it remains to be seen if the potential for savings identified by the Audit Commission (which were based on questionable assumptions of organisations spending at average levels) can ever be achieved. Indeed in its 'Report and Accounts Year Ended March 31, 1987', the Commission admitted that in the previous four years only 16 per cent (£80 million) of the £492 million savings identified had actually been achieved.

Despite this, the Accounts Commission felt it was unfairly, and more significantly unfavourably, compared to the Audit Commission and to redress the balance required 'the tools for the job' which included in addition to

appropriate legislation, a comprehensive data base and adequate resources. Himsworth (1986) argued for the express statutory provision of VFM powers. He makes the point that in the absence of statutory provision, where authorities are acting wastefully and inefficiently, they are not acting illegally.

For Scotland, the amendment of section 99 of the Local Government (Scotland) Act 1973 as contained in Section 35 (4) of the Local Government Act 1988, added to the auditor's general duties a requirement to feel satisfied, 'that the local authority has made proper arrangements for securing economy, efficiency and effectiveness'. Outside Scotland, the same directive came with the establishment of the Audit Commission for Local Authorities in England and Wales which followed from the Local Government Act 1982. The corresponding body in Scotland, the Accounts Commission, was formed in 1975 reflecting changed requirements arising from the reorganisation of Scottish local government which created fewer but larger authorities. Throughout the history of this latter organisation, auditors have been encouraged to assist and support local authorities in pursuit of economy, efficiency and effectiveness. Since financial year 1988-89, this has been a statutory duty.

In a 1980 Green Paper dealing with the role of the comptroller and auditor general (Cmnd 7845, p. 7), the following definition of auditing types was offered:

- *Financial Audit* – a financial audit ensures that systems of accounting and financial control are efficient and operating properly and that financial transactions have been correctly authorised and accounted for;
- *Regularity Audit* – a regularity audit verifies that expenditure has been incurred on approved services and in accordance with statutory and other regulations and authorities governing them;
- *Value for Money Audit* – a value for money audit is an examination of economy and efficiency, to bring to light examples of wasteful, extravagant or unrewarding expenditure, failure to maximise receipts or financial arrangements detrimental to the Exchequer, and weaknesses leading to them;
- *Effectiveness Audit* – an effectiveness audit is an examination to assess whether programmes or projects undertaken to meet established policy goals or objectives have met those aims.

The traditional role of the local authority auditor has been to examine the accounts in order to detect any illegality, fraud, corruption, unreasonableness, or wilful misconduct of the authority or its employees. This incorporates financial and regularity audits, as defined above, and is sometimes

referred to as probity or fiscal auditing but it primarily involves ensuring that funds have been expended in accordance with the terms by which they were appropriated and that accounts have been properly prepared.

In addition, the auditor's role in the local authority context has widened to include both value for money audits and effectiveness audits. Whilst there is clearly a distinction between the two with the former focusing on waste avoidance and the latter with goal attainment, they are now colloquially taken together. The mandates dealing with the new auditing regulations do not actually use the phrase 'value for money' but rather refer to economy, efficiency and effectiveness (the three 'Es').

THE ACCOUNTS COMMISSION VFM MODEL

The Audit Commission for Local Authorities in England and Wales has specified a uniform evaluation model to be applied by auditors. This outlines the characteristics, structures, approaches and decision-making procedures which local authorities should adhere to. These also form the basis for comparison for each authorities' actual vfm arrangements with those which the Commission deem appropriate. Contrastingly, in Scotland, the Accounts Commission issued guidelines and an 'exemplified approach' which were to provide a framework within which auditors had, and indeed have, flexibility to derive their own detailed manuals of guidance for staff engaged in vfm. This seems a more appropriate way of operating than the previous method since recognition of local operating conditions is essential if vfm is to become meaningful and against this backdrop, flexibility and to some degree discretion seems fundamental.

Auditors are not concerned with the achievement of the individual criterion of economy, efficiency and effectiveness but rather that the authority being audited, or rather the authority's management, has made proper arrangement for securing these three components of vfm. This is more complex than it appears but the Commission gives an indication of the management practices which should be in place if the necessary arrangements are likely to exist:

- systems of planning, budgeting and controlling revenue and capital expenditure and income, and for the allocation of resources;
- adequate codification of responsibilities, authority and accountability;
- manpower management including arrangements for review of staffing and for recruitment, training and direction of employees;
- arrangements for the proper management of all the resources of the authority – land, property (including acquisitions, maintenance, utilisation, and disposal of land and buildings), equipment, information technology, finance and energy;

- arrangements designed to take advantage of economies of scale, particularly in procurement of goods and services;
- regular monitoring of results against predetermined and quantified performance objectives and standards. (Accounts Commission, 1988a)

In developing an individual approach to the examination of an authority's 'proper' arrangements for securing the three 'Es', the auditor would focus on such areas as:

- existence of commitment and corporate approach to VFM within an authority e.g. steering group or performance review machinery;
- definition and quantification of attainable objectives;
- derivation of performance indicators and subsequent monitoring of actual performance;
- incidence of reviews of particular service and activity levels and related costs and outputs;
- evidence of periodic external comparison with the costs and performance applying in the private sector for all appropriate services and activities;
- maintenance of adequate procedures to ensure optimum utilisation of scarce resources;
- existence of adequate management information i.e. accurate, timeous and made available in appropriate detail to levels of accountable management (including members). (Accounts Commission, 1988a)

The auditor, whilst not allowed to question policy directly is expected to consider the effects of policy and to examine the arrangements by which policy decisions are reached, implemented and reviewed. This involves the following considerations:

- whether policy objectives have been determined, and policy decisions taken with appropriate authority;
- whether established policy aims and policy objectives have been clearly set out;
- the extent to which policy objectives are set out, and decisions based, on sufficient, relevant and reliable financial and other data, and with the critical underlying assumptions made explicit;
- whether there are satisfactory arrangements for considering alternative options, including the identification, selection and evaluation of such options;
- whether subsequent decisions on implementation are consistent with the improved aims and objectives, and have been taken with the proper authority at the appropriate level; and whether the resultant instructions to staff accord with approved policy aims and decisions are clearly understood by those concerned;

- whether the costs of alternative levels of service etc. have been considered, and are reviewed as demands and costs change;
- whether there are satisfactory arrangements for securing, in respect of policies selected for implementation, review of performance against expectations. (Accounts Commission, 1988a)

It is recognised that the auditor will not be able to cover all aspects of the varied and diverse tasks undertaken by local authorities and he is therefore encouraged to be constructive and direct attention to those significant areas with the greatest potential for improvement. Relevant information received from both the authorities' officials and from the Controller of Audit should help to identify these areas but the auditor also has a role to play and should regard the following:

- available soundly based comparative statistics;
- discussions with members and officials;
- reports and guidance issued by the Controller of Audit;
- research and reports issued by independent review agencies, government departments and professional bodies;
- significant VFM issues emerging from regularity audit work;
- previous audit reports;
- council minutes and supporting papers. (Accounts Commission, 1988a)

The Commission assumes that: 'In all but the rare extreme cases the foregoing reporting mechanism will enable the auditor to satisfactorily discharge his statutory duty' (Accounts Commission, 1988a). Some deficiencies in this approach have already been discussed but additionally it does give rise to questions about time. If the method followed is as thorough and comprehensive as that described then it seems an awesome task for an auditor to go into an authority at the conclusion of a financial year and conduct, in addition to the more traditional probity audits, an evaluation of VFM arrangements. As McSweeney has said:

Belief in the ability of auditors (or indeed anyone else) to step into local authorities during a few months each year and comprehensively evaluate in a uniform manner their arrangements and accomplishments, recognising what is wrong and knowing how to put it right, greatly underestimates the complexity of organisations in general, and local authorities in particular. It also ignores the cognitive limitations and perceptual bias of auditors. (McSweeney, 1988, p. 38)

Much will depend on the availability of appropriate data and information. Equally significant is the role of internal auditors: 'Internal audit is an integral part of internal control. The extent to which the external auditor can dispense with detailed work depends in no small part on the effectiveness of the system of internal control' (Glynn, 1987, p. 118).

Whether this pertains will vary with locality but De Paula and Attwood note that whilst external and internal auditors have some common aims there are also fundamental differences particularly with respect to scope and responsibility:

Whereas the work undertaken by the independent external auditor arises from the responsibilities placed on him by statute, that of the internal auditor is determined by the management. Further, the internal auditor, being an employee of the organisation, does not have the independence of status which the independent auditor possesses. (De Paula and Attwood, 1982, p. 73)

Butt and Palmer take the view that the mechanisms used in value for money auditing are only the formal procedures which are part of the overall approach:

It cannot be stressed enough that value for money is not just a collection of techniques. It is above all an attitude of mind, a commitment to good practice on the part of politicians and officials. It is particularly important for management to instill a positive approach towards achieving value for money at all levels, so that commitment permeates the whole organisation. Having said that, value for money cannot be achieved by merely inspiring the organisation with the necessary crusading spirit. Management's enthusiasm and drive has to be supported by the right organisational structure and also formalised budgeting, evaluation and monitoring systems. (Butt and Palmer, 1985, p. 22)

The Accounts Commission, in giving auditors some flexibility, recognises that more than mechanistic approaches will be needed if vfm is to improve service provision in local government.

Although vfm has a narrower, financial focus, the model bears a striking resemblance to the corporate planning model advocated for Scottish local authorities in the Paterson Report (Paterson, 1973). This had an emphasis both on policy planning processes and organisational structures, with a desire to deliver a unified approach to policy formulation and implementation, which preserved the strengths of professionalism yet ensured community needs were met. Although the language is clearly that of policy analysis rather than accountancy, the recommended model, like vfm, is a version of modified rational choice (Simon, 1958; Lindblom, 1959). The Paterson Report outlined the corporate process in the following terms:

the ultimate objective of corporate management is to achieve a situation where the needs of a community are viewed comprehensively and the activities of the local authority are planned, directed and controlled in a unified manner to satisfy those needs to the maximum extent consistent with available resources. The main steps in the process can be summarised as follows:

- to identify and as far as possible measure and analyse existing needs and new (and changing) problems within the community served by the authority;
- to specify the desired objectives for the provision of services to meet those needs and to quantify them;
- to consider the various alternative means of achieving these objectives;
- to evaluate the various means and in the light of the assessment of resources required and benefits expected to decide on the best means;
- in so doing to examine the inter-relationships and interactions of the different departments of the authority;
- to produce action programmes covering several years ahead to achieve the stated objectives;
- to implement the action programme;
- to carry out a systematic and continuous review of the programmes in the light of progress made and of changing circumstances; and
- to measure real achievements in relation to stated objectives. (Paterson Report, 1973, pp. 26-7)

The main elements of such an approach were as follows:

- The production of a document or series of documents summarising the authority's existing policies and activities (sometimes called a position statement);
- production of a statement of the council's policies, objectives and priorities for the future; of necessity this may be rough and ready and largely unquantified in the early stages and may require to be substantially refined as better information becomes available; ultimately, however, this document (or policy plan) and the supporting detailed departmental plans and budgets will form the kernel of the authority's corporate management system;
- the identification of areas where gaps or shortfalls from the desirable level of service are known or suspected to exist; again this may require to be done fairly intuitively in the early stages;
- from this, the selection of key areas for investigation in depth by multi-disciplinary teams: this stage is usually called policy analysis or review;
- the development of improved budgeting procedures, covering both capital and revenue expenditure, on a rolling programme basis for at least five years forward;
- the gradual build-up of a comprehensive management information

system: this would probably be computer based and centred on the region although not totally located there; it should draw together into a readily usable form the mass of relevant information already available, not just within the region itself but within the districts and from government departments and other central sources;

- the initiation of research to fill information gaps in the selected key areas and the feeding of the research results into the management information system;
- the integration of all planning and budgeting into a unified system carried out on a cyclical basis in phase with annual estimate procedures. (Paterson Report, 1973, p. 31)

In practice, local authorities fell short of the Paterson ideal. Conceptual problems of measuring needs and performance were substantial. There was little evidence of 'objectives' playing a central role in decision-making, and the development of options analysis was mainly confined to the budgetary process, usually as ways of making cuts rather than meeting objectives (Midwinter, 1982b).

Corporate planning, like VFM, was an instrument for managerial control. As such, it was not wholeheartedly welcomed by practitioners, who doubted the capacity of corporate managers to assess the needs and performance of their services believing it to be the responsibility of relevant professionals (Butcher and Dawkins, 1979).

Whilst the political context is different, and the focus is finance rather than policy, it seems to us that the models have much in common. The techniques advocated are similar, and the conceptual and political problems likely to be much the same. Writing in 1980, Chris Skelcher observed that work on performance indicators focused mainly on cost/activity factors, rather than policy (or effectiveness) impact (Skelcher, 1980), whilst Greenwood and Stewart (1974) reported that output measures were not easily found, nor precise measurements always available.

Not surprisingly, professionals resisted and attacked the measures developed. The McKinsey Report on Liverpool, whilst criticising the lack of criteria or measures of performance, proposed an emphasis on effectiveness 'as expressed in the measures of impact' (McKinsey and Co. Inc., 1969). The examples, however, were all *cost* indicators.

The limited impact of corporate planning in the key issues of setting objectives, appraising options and measuring performance, should have provided a cautionary warning to the advocates of reform. However, in searching for improvement, the Government has resorted to previously tried and failed textbook models. In part, this was stimulated by a belief

that such approaches 'worked' in business. Thus the Accounts Commission's model does not openly recognise the conceptual difficulties. Calls for 'clear objectives' and 'performance measurement' are made without clear 'hands-on' advice on how to do it in practice. In part, this reflects the haste with which management consultants hyped the VFM approach as an almost painless panacea. Experienced officials should have known better.

VALUE FOR MONEY STUDIES

In pursuit of its policy of promoting optimum economy, efficiency and effectiveness in the use of local authority resources, the Accounts Commission approved a programme of audit studies in February 1986. The objective of these was to identify and spread better practice within the relevant study areas and to identify specific opportunities for improved value. In each case, a sample of authorities participated but contributions were also made by practitioners with the necessary technical expertise. At the time of writing, three areas have been examined namely: energy management in local authority buildings; janitorial and cleaning provision in education buildings; and local authority refuse collection.

Energy management was chosen as the first service for study and a review began in May 1986 with the findings published in April 1987 (Accounts Commission, 1987). In financial year 1985-86, £100 million was spent on heating, lighting and providing power in authorities' non-domestic buildings such as schools, leisure centres, offices and residential homes. The Accounts Commission estimated that at least 10 per cent savings could be achieved thereby releasing significant sums for local use on improvement in direct service delivery. Energy management was also an ideal choice for study because it was not an area where it was disputed that waste existed and steps were being taken to secure improvements, for example by the Regional Councils' Energy Management Group. Eight authorities comprising five regional councils, two district councils and an island's council participated in the review. The study encompassed both qualitative and quantitative analysis with the former examining the processes, organisation and resources directed to energy management. It drew the following conclusions:

- the authorities studied do not accord energy management a high priority;
- there is, with certain exceptions, no visible evidence of commitment from members – only two study authorities have approved energy policy statements and submit progress reports;
- monitoring and targeting systems are at various stages of development but significant gaps are apparent in most of the information systems studied;

- investment is low. Only three of the eight study authorities were able to identify earmarked 1985/86 energy conservation expenditure – this totalled £0.5 million. It is fair to add that 1985/86 maintenance expenditure, identified by study authorities as being measures directly impacting on energy conservation, totalled a further £1.5 million. Investment by study authorities ranges from 1–5 % of their annual energy spend;
- there is clear evidence that the study authorities have devoted considerable resources, with commensurate rewards, to the procurement of fuel and energy on the most competitive terms and to the review of electricity tariffs;
- the study authorities, with some single exceptions, still have much to do to train and motivate plant operators and building users and thereby sustain an awareness at building location levels of the need for energy conservation. (Accounts Commission, 1987, p. 17)

The Accounts Commission concluded its study by outlining a framework for action for securing an integrated policy of sound energy management for all levels within local authorities from the policy-maker to those at the 'sharp-end' of operations that is, the building users.

Janitorial and Cleaning Provision in Education Buildings was the second in the Accounts Commission programme of audit studies with the findings published in November 1988 (Accounts Commission, 1988b). This service was selected for analysis partly because the provision of it costs Scottish local authorities £80 million per annum but also because in accordance with the Local Government Act 1988, from 1 August 1989, education authorities were required to submit building cleaning to competition. It is an area therefore which is of particular focus in the rhetoric surrounding compulsory competitive tendering. Information was gathered from participating authorities in respect of 320 primary and secondary schools and about 100 other local education establishments such as further education colleges and community centres. Again, the study combined qualitative and quantitative techniques with the main elements of the review comprising:

- an identification of the scale, nature and method of service provision;
- a quantification of the resource input;
- an examination of the processes and organisation directed to the management of janitorial and cleaning activity.

The magnitude and complexity of the provision of janitorial and cleaning services is much greater and technically more complicated than energy management. This is because there are a greater number of factors impinging on the provision of the service. For example, the type of wood, carpets and vinyls used on floors; the number of waste-paper bins, blackboards and

toilets; the type of heating system; the extent of guttering and how much graffiti requires to be removed; will all have an effect on the demand for the service in question.

This is reflected in the report which is more cautious about producing performance indicators than was the Energy Management Review. Here, the focus is more on weaknesses in the existing approach which should be addressed by authorities. These are inadequate management information systems; inadequate specification of the cleaning requirement; low investment in 'high-tech' equipment; and the need to review work practices in a labour-intensive service. This study also concluded with a framework for action but this is much less specific than that contained in the energy management review. The steps to be taken are not identified but this is a reflection of the tendering out of cleaning services which was imminent at the time the report was published. The review identified potential savings, in this case 20 per cent of current expenditure.

Local Authority Refuse Collection is the most recent service to become the subject of a VFM study with the report published in January 1990 (Accounts Commission, 1990). Unlike the other two services reviewed, despite growth in demand, the real cost of refuse collection has been falling due to improved productivity and changes in operational methods. Customers are generally satisfied with the service they receive. The Accounts Commission had an independent market survey conducted as part of the study and this indicated satisfaction levels in excess of 90 per cent. Despite this, there was evidence of greater efficiency being achieved in certain authorities and differences in the methods used in the process of refuse collection. Like school property cleaning, the uplifting of refuse is now subject to compulsory competitive tendering requirements. Authorities remain responsible for policy on standards and quality of service, as well as funding. The refuse collection service accounted for approximately £90 million of local authority expenditure in 1987-88.

The principle objective of this review was the identification of benchmarks or indicators of better current practice which could then be offered to authorities as representative targets. These indicators were compiled but due to the sensitivity of this information for a service subject to contracting out, they were not reproduced in detail in the report but were contained in a guide issued only to auditors. The focus of this study thus is less quantitatively orientated and more concerned with route operation, the method of collection and utilisation of manpower and machinery and the effect this has had on cost. This VFM study did not produce a checklist of weaknesses nor a framework for action. Rather, it was broader in outlook considering service aspects with potential for further improvements. This reflects the fact that

this is a field where some authorities are already operating efficiently. The Commission does, however, still earmark potential savings ranging from 10 per cent to 30 per cent:

Savings are possible through improved productivity within existing collection methods but further scope exists by changing from a backdoor to a kerbside collection system. In fact, the principle innovation in recent years has been the introduction by an increasing number of authorities of the continental wheeled bin kerbside collection system. (Accounts Commission, 1990, p. 2)

This is clearly a policy issue, and as such, a matter for councils to decide whether the backdoor collection system which is more convenient for householders should be replaced by the less convenient but cheaper kerbside collection method. This has not prevented widespread advocacy of this change despite high levels of satisfaction with existing systems.

The Commission followed up these reports by instructing auditors to examine responses to the report by the authorities studied, and to promote in the remaining areas better practice as identified in the studies. What sanctions they have, however, is not clear to us at this stage.

VFM IN PRACTICE

We undertook a preliminary survey of authorities to see what approaches were being utilised in response to the new efficiency remits. The results are presented in Table 5.1. We were surprised at the extent of inaction amongst Scottish authorities. As one chief executive of a rural district put it:

I must say that I have considerable reservations about the appropriateness of 'auditors' advising the Council on 'value' for money. There appears to be no base-line definition of 'value'. What our local politicians might consider to be 'valuable' may not necessarily coincide with the opinions of a non-elected body such as the Accounts Commission or a firm of accountants in the private sector. Moreover, accountants appear to have magically acquired all of the expertise of management consultants and political advisers in being placed in the position, by the government, advising local authorities in this area. Whilst no-one, including myself, doubts the benefits of improved efficiency in service delivery, I am not convinced that the simplistic extension of the remit of the external auditors is the best solution to the problem, if indeed a problem exists.

Such an outlook is not atypical amongst officers and is reflected in the diversity of approach being adopted by authorities. We asked authorities which committee(s) had responsibility for VFM matters, and the responses varied from *all* committees having to take account of efficiency to no par-

ticular committee having such a remit. Of those that have assigned the task specifically, Policy and Resource Committees, Finance Committees and Management Service Groups usually took on the role.

Two authorities, however, have set up specific Policy and Resource Sub-Committees to address the issues, namely an Audit and Performance Review Sub-Committee and a Performance Review and Budget Monitoring Sub-Committee.

The designate officer with vfm responsibilities also varied but was usually high-ranking ranging from chief executive down to internal auditors. In three authorities, all service directors were responsible for vfm matters but in five authorities no officer had been assigned the task which was supposed to be considered by all staff at all times. Two authorities had created specific vfm posts appointing Policy and Performance Review Officers.

In considering how many staff are typically involved in vfm work, the majority of authorities (twenty-five out of the thirty-seven respondents) have no designated staff working in the area but rather draft them in from other departments for specific vfm projects as required, normally for a few weeks at a time and varying from one to ten full-time equivalent staff members. Twelve authorities do have staff specific to vfm matters ranging from 7 FTE to 0.25 FTE. The greatest efforts at development are taking place at regional council level with more staff involved on a regular basis. Strathclyde Region, for example, are using an operational approach with detailed reviews of corporate and departmental issues being undertaken. Examples include property utilisation, stock management systems and energy management. Contrastingly, Lothian is developing a strategic approach to assist in choices about priorities in resource allocation. This has a review process built in in terms of evaluating the effectiveness of programmes and their consistency with council objectives. Only seven authorities had an organisation chart detailing levels of vfm responsibility.

We explored whether the organisational basis for vfm analysis existed and had to conclude that on the whole it did not. A minority of authorities have a written statement of objectives and priorities but as might be expected, these are normally vague and unquantified and do little more than intimate the broad issues to be addressed by policies and particular departments. As such, they are of little consequence within the vfm framework.

A limited number of authorities have utilised base budget reviews of services and only a handful of authorities make use of performance indicators. A number of authorities indicated that performance indicators played a more prominent role following the introduction of requirements for Compulsory Competitive Tendering under the Local Government Act, 1988. As one practitioner put it, 'It is really only with the onset of CCT that closer scrutiny

Table 5.1: Value-for-Money Survey Results

<i>Which committee has responsibility for VFM issues?</i>		
Policy and Resources Committee		20
All committees		6
No specific committee		4
Management services group/team		3
Finance Committee		2
Audit and Performance Review Sub-Committee		1
Performance Review and Budget Monitoring Sub-Committee		1
<i>What is the designate of the officer responsible for VFM matters?</i>		
Finance director		10
Chief executive		7
None specifically		5
Assistant Chief Executive		4
Internal auditor		4
All service directors		3
Policy and performance review officer		2
Various Officers		2
<i>Does your authority have staff specifically involved in VFM work?</i>		
YES	12	32.4%
NO	25	67.6%
<i>Is an organisation chart available?</i>		
YES	7	18.9%
NO	30	81.1%
<i>Does your authority have a written statement of objectives and priorities?</i>		
YES	15	40.5%
NO	22	59.5%
<i>Does your authority undertake any base budget reviews?</i>		
YES	7	18.9%
NO	30	81.1%
<i>Does your authority make use of performance indicators in budget allocation and control?</i>		
YES	6	16.2%
NO	31	83.8%
<i>Has your authority undertaken any value-for-money efficiency studies?</i>		
YES	17	45.9%
NO	20	54.1%

has been given to the detailed practice and techniques which have been and should be applied in our accounting process'.

Of the authorities using performance indicators, they are most frequently used for comparing unit costs for similar projects/services within the authority. In some authorities they were used as the reference point in the process of budget allocation and control. It is clear from questionnaire replies that some authorities are making efforts to develop appropriate performance indicators and collate the necessary information but that it is still early days. One official pointed out that there was insufficient data in the public domain to allow 'sensible' comparisons between authorities and what

there was had often been collected on a different basis for each authority.

Nearly half the authorities who responded to our survey had undertaken, or were in the process of conducting, vfm/efficiency studies. These tended, however, to be in limited fields such as advertising, land and property services, and creditor payments.

Although relatively early days, it would appear that the organisational basis for vfm analysis only partially exists in a few Scottish authorities and as yet, a consistent approach to tackling vfm issues is not yet operational. In many respects this is preferable to local government having rushed headlong into such a complex task. Such a situation is to the credit of the Accounts Commission who consider vfm auditing in Scotland to still be in the embryonic stages. At present, they are attempting to stimulate authorities into addressing efficiency issues themselves rather than adopting a 'big brother is watching you' stance. They recognise that suitable data needs to be constructed before vfm auditing can progress and the climate they are trying to generate is one of participation between themselves and the authorities.

CONSTRAINTS ON VFM

We are not surprised at the lack of development within local government. The model being advocated strongly resembles failed rationalist reforms such as ppbs or corporate planning in the past. To move beyond the theoretical rhetoric which exists at the moment will require a substantial increase in the state of the art. The use of vfm in practice has been criticised by a number of commentators.

Firstly, there are problems of *precision in measurement*. McSweeney (1988) has observed that there are three types of information necessary if the auditor is to adequately assess how far along the efficiency path an authority has gone:

- 1) Detailed knowledge of the inputs and outputs of an activity.
- 2) Precise knowledge of the causal links between inputs and outputs.
- 3) There must be known optimum criteria against which identifiable performance can be compared.

In practice these conditions are seldom met.

Secondly, there are problems in *setting realistic objectives* to allow effectiveness issues to be considered. The joint working party set up by CIPFA and the District Auditors following the passing of the Local Government Finance Act 1982, recognised the crucial nature of 'effectiveness':

It is not sufficient for the organisation to know that it is spending money very efficiently, or spending more or less on its activities than other similar organisations in the same management situation. It is not merely

concerned to know, for instance, that it is building homes for the aged more cheaply than it has done before, and more cheaply than any other authority providing similar accommodation. What it needs to know is whether provision of the homes in fact contributes to solving problems facing the aged. (Quoted in Jowett and Rothwell, 1988, p. 26).

Despite this recognition, the working party was careful to qualify this by drawing to attention, the practical difficulties of implementing the criteria:

We fully recognise that effectiveness is an important ingredient in the value for money concept, perhaps more important than economy or efficiency in the execution of programmes. But we think that much more information than we have is required about the practical application of the concept and the skills that are needed by auditors before a separate audit standard with satisfactory guidelines can be drafted. (Quoted in Jowett and Rothwell, 1988, p. 27)

The fundamental problem in evaluating effectiveness is the difficulty in setting goals and objectives which are meaningful. Within local government, most expressed aims are vague and general. For example, an economic development department may be committed to assisting and contributing to the economic regeneration of an area or a social work unit to providing adequate care and assistance to all those in need, but in terms of assessing the effectiveness of the departments, this offers little.

Problems of identifying meaningful *performance indicators* were not unexpected to those who recall their short-term fashion in the 1970s (Elcock *et al.*, 1989). Commentators distinguish analytically between performance measures and performance indicators (Jackson, 1988; Carter, 1988). The former exhibit greater precision but there are few in use which are worthy of the term 'measure'. Practitioners tend to use the terms interchangeably. A good performance measure is hard to come by, and usually the term indicator is more relevant, for this acknowledges that other intervening variables can influence the outcome.

In a recent paper evaluating the development of PIS in central government, Carter (1991) recognises that 'performance' has become a buzzword. He notes the conceptual and technical complexity of measuring effectiveness, and thus outcomes, as it is difficult to isolate the impact of police patrols on crime rates, or health care on longevity, from the various mediating organisational and environmental factors. We would argue that this technical incapacity also applies to assessing effectiveness, for example, the effect of education, housing or social work provision in local government. Carter distinguishes between 'measures' which can be read off a dial; and 'indicators' which are essentially descriptive and therefore serve as 'tin-openers', which suggest something worthy of further investigation. They do not

provide answers. The sheer volume of *PI* statistics now contained in the Public Expenditure White Paper threatens to overload the system (there are now over 2000). Few of these are measures. They are mostly *cost* indicators (per capita) or *efficiency* indicators which provide a ratio of inputs to outputs (for example staff to library users) or *activity* indicators, (such as the number of schools). The *effectiveness* indicators that exist (for example exam passes) are not foolproof, and can be affected by other intervening variables. Given the state of the art in central government, it would be unrealistic to expect to find dramatic improvements in technique in local government. Such indicators as exist are as likely to be used to support a case for *more* resources as they are to lead to savings. Indicators are a double-edged sword.

To translate this into a total approach to management also requires precise objectives. More local authorities are political organisations with broad political goals. Integration of imprecise indicators with vague objectives is an impossibility. This makes us suspicious of using inter-authority comparisons on a 'league table' basis (Flynn, 1990), although the use of comparator authorities can be useful in policy review for assisting judgement, provided the limitations of data comparability are understood. Financial techniques cannot deliver answers.

In local government, it is difficult to find a relationship between the actions of the authority and the results achieved. This is not only because of quantification problems in many of the services involved, but also because of the many intervening external factors which are difficult to identify/control. This complex interrelationship amongst variables makes the overall objectives of performance review as conducted with performance indicators all the more problematic.

In the absence of precision, the failure of authorities to go about the task of developing indicators on the basis of fairly abstract guidance is not surprising. The building in of 'efficiency savings' into the RSG settlement only serves to confirm that this model is part of the panoply of controls. The Accounts Commission has in practice acknowledged the limits of the techniques at their disposal. Their approach has of necessity been more pragmatic than their English counterparts. This is simply a reflection of the limitations to accountancy expertise, and their present incapacity to deliver a convincing model for use in practice.

Although efficiency audits had been conducted in local authorities prior to legislation, there was insufficient evidence of the ability of the VFM reviews to accomplish their pre-set tasks. The well-developed body of knowledge and techniques of this type of auditing which would be required following the passing of the Acts does not exist. The role of the auditor has thus been

extended without evidence of the prerequisite development of auditing technique. The vfm model is simple indeed:

Prior specification of a few uncontested, unambiguous and tangible (and preferably quantified) goals for each local authority task, and each local authority as a whole, is regarded as usually possible and always highly desirable. These stated and antecedent goals should be used to plan and control local authority activities, and their accomplishments (or not) should be regularly, and usually quantitatively, determined. Causal certainty is also assumed, i.e. that it is always feasible to predict and subsequently establish the relationship between inputs and outputs. In brief, prior, explicit, unambiguous goals march through arrangements to predetermined ends. Visibility is the key. Extensive explication of formal intentions, targets and rules, job descriptions, procedures and so forth enable, the model assumes, extensive and intensive monitoring of the extent of consistency between planned outcomes with actual outcomes, between rules and activities. (McSweeney, 1988, p. 34)

This led one professor of accountancy to conclude that:

At present the auditing profession cannot deliver fully on its vfm mandates. This is partially due to the fact that the auditor's role is evolving in response to changing public needs and expectations. He is a third party intermediary in a broadly defined accountability relationship between on the one hand, government and management, and on the other hand, politicians and the public at large. (Glynn, 1987, p. 119)

It is somewhat depressing to note the continuity with earlier reforms. 'Efficiency' is what Rose (1985) calls a 'placebo' policy, which can reduce the symptoms of anxiety without having any effect on the body politic. We do not wish to be seen to be disparaging to these practitioners to whom responsibility for developing an imprecise and inexact system has been given. The lack of progress reflects the lack of technique and an inadequate political strategy. Those who would reform local government would be better to start with a clear analysis of its failings and from these develop a coherent approach to tackling them, rather than starting from ideological assumptions and relying on inappropriate solutions to complex issues. Peters and Waterman (1982) show that successful private companies do not rely on analysis from corporate ivory towers. The reality is that in vfm, yet another bureaucratic managerial reform is doomed to failure. If progress is to be made, it will be in the form of efficiency studies. These are modest in scope and concentrate on cost savings.

In our view such savings as have been generated are worthwhile, but we think it is unrealistic to include assumptions about efficiency savings in grant settlements. Central government's own Rayner Scrutinies provided nothing

like a 1 per cent per year saving, despite the strong political backing of the Thatcher Government (Rayner, 1982). So efficiency studies should be pursued, but with less heroic expectations.

Performance review, however, should be separate from the nuts and bolts concerns of the efficiency strategy. It must be removed from the VFM agenda and developed as policy analysis, with wider criteria than purely financial concerns. It is a technique more suited to developing policy than cost-cutting. All the evidence of past studies suggests it is not an activity to conduct as part of the budgetary process (Elcock *et al.*, 1989). It should also be carried out in a realistic acceptance of the pervasiveness of incrementalism in local politics. Communities will not readily give up services they have. Change needs to be negotiated, not imposed. Performance indicators can provide signals to decision-makers that something needs investigation in a performance review process. This will involve qualitative assessments as well as quantitative, and political evaluation, not efficiency criteria. In short, performance indicators should be rescued from the confining and inappropriate straightjacket of the VFM framework, and set in a broader context of policy analysis to assist the political process in local government.

The Limits to Financial Reform

REFORM IN RETROSPECT

For over ten years, local government finance has been facing continuous upheaval. One convenient explanation for this would be the arrival of a reforming government, disenchanted with consensus politics, and committed to radical change. Yet as an accurate description of events, that simply will not do. Bramley observed that in the first five years of Conservative rule, 'what we find is less a case of radical reform in line with carefully considered analysis, and more one of costly, destabilising incrementalism' (Bramley, 1985, p. 191).

Incrementalism is widely regarded as a descriptively accurate model of how most policies are made in Britain. Bramley interprets it as a process in, 'which policy proceeds by a series of irregular, disconnected, inconsistent, relatively small steps, at no stage departing completely from the status quo, and at no stage being determined by a comprehensively, rational review of options against objectives' (Bramley, 1985, p. 102). He concludes that the incremental style of policy-making is often defended by political scientists as either inevitable or desirable. There is certainly a normative thrust to the writings of some incrementalists. Braybrooke and Lindblom (1963), for example, defend incremental change as a means of avoiding serious lasting mistakes. Bramley argues that in this case, however, incrementalism 'has produced outcomes which would be very hard to defend as desirable from almost any perspective. It has produced a quite substantial, quasi constitutional shift of power, and a whole range of other costs, by a series of disjointed incremental steps' (p. 105).

We would argue that there is a need in analysing financial reform to distinguish between incremental change and an incremental process. There is no doubt that the reforms from 1979 to 1986 were incremental in the former sense – they constituted minor adjustments to the financial system. From 1986, however, we witnessed quite radical change. Bramley himself saw the poll tax as a non-incremental step in a culture and system dominated by incrementalism (Bramley, 1990, p. 57).

All of this is true in terms of the scale of change. Incrementalism, however, also refers to the *process* of decision-making. It places a heavy emphasis on the need for marginal change because of uncertainty, and the desirability of negotiation and compromise between interest groups. As Hogwood and Peters observe, 'In reality, "new" policies are rarely written on a *tabula rasa*, but rather on a well-occupied or even crowded tablet of existing laws, organisations and clients' (Hogwood and Peters, 1983, p. 1).

Thus we would characterise the poll tax as a radical rather than a rational reform. It was radical as it was based on the normative orientation of public choice (Bailey, 1988) rather than a rational analysis of policy objectives and options. In our view, both the incrementalist reforms and the radical reforms were the result of failures of 'policy style' (Jordan and Richardson, 1982) as well as the failures of 'policy analysis' which constitute the bulk of this book.

Jordan and Richardson see the dominant policy style in Britain as one of 'bureaucratic accommodation', characterised by a predilection for consultation, avoidance of radical policy change and a strong desire to avoid actions which might challenge well-entrenched interests. Departments use standard operating procedures for dealing with prominent actors and groups in a policy field. Policy initiatives are 'cleared' within this system by consultation with other departments and interest groups. They see this approach as having a functional logic.

Consultation contributes to system maintenance not only because it impacts a sense of involvement but also because it should produce more acceptable policies. Only the wearer knows where the shoe pinches and, arguably, in giving access to interested groups and individuals the system is more effective in supplying public needs than a dirigiste system. Thus problem definition might be improved as a result of the wider participation by those most directly affected even if the effort and time needed to reach a decision are increased. With decisions that are specific, technical, complex, managerial, then awareness of particular circumstances is all-important. (p. 86)

Jordan and Richardson argue that, in most areas of policy, the Thatcher Government has adhered to this style, and been less radical in practice than its rhetoric would suggest. Extensive consultation is seen as the best way of ensuring policy success. Policies which are driven by partisanship rather than consensus are seen as exceptions to the normal style.

Local government finance is an area where formal mechanisms exist for consultation – in England through the Joint Consultative Council, in Scotland through the Working Party on Local Government Finance. Detailed work is carried out by joint teams of civil servants and local authority officers,

from what Rhodes (1988) calls the 'topocratic' professions of chief executives and finance officers, and membership of such committees is strictly regulated. Local authorities' operational expertise and central government's control over resources and legislation create a system of mutual interdependence. Why then, did consistent policy failures occur in an area where relations between central and local government are normally close?

It is here that the failures of policy style and policy analysis merge. A central feature of the Conservative economic strategy was the need to control public spending, borrowing and taxation. Manifesto commitments, however, exempted large areas of public spending from cutbacks (e.g. for example, defence, law and order and health); whilst demand-led expenditures such as welfare benefits increased automatically with the economic recession.

This left local government spending as the main target for reductions. Whereas in 1976, the IMF loan allowed the Labour Government to present the need for cuts as an economic necessity, the Thatcher Government simply asserted its need to control and cut local spending in furtherance of macro-economic management. This brought criticisms from economic analysts (Barlow, 1981; Meadows and Jackson, 1986) especially over current spending financed via the rates, and even the right-wing politician Enoch Powell MP, writing in the *Sunday Express* (11 October 1981), argued that constraints were not justified by the Government's own diagnosis - 'every monetarist knows that rates cannot cause inflation and councils cannot print money'. This lack of coherent economic rationale coupled with the extension of Labour control in local government, produced an often spectacular conflict.

In Scotland, the 'hands off' approach worked successfully up until 1979 (Rhodes, 1988). Macro-controls were effected without resorting to detailed intervention, through a range of policy planning systems in capital expenditure, and the introduction of current expenditure guidelines and cash limits on grants. By 1979, local spending was clearly under control. The new Conservative Government abandoned the 'hands off' approach for a control strategy through the bureaucratic mechanisms outlined in Chapter 3, with the resultant extension of budgetary strategies to overcome these controls. Whilst the Thatcher Government claimed that whereas local government co-operated with previous governments, they now challenged government strategy, the reality is that the Government moved from a strategy based on consultation over principles, to one based on control through bureaucratic mechanisms.

The phase 1979-86 was characterised by a series of incremental reforms, implemented through a non-incremental process. The normal style of consultation leading to acceptable solutions was abandoned for the command code

of Treasury inspired reforms. If control was not to be achieved by consent, then other means would deliver it. The result was what Rhodes terms a 'policy mess', characterised by antiquity, confusion and instability.

If *policy messes* were the result of non-negotiated reforms, then *policy fiasco* is an apt description for the administrative chaos which followed the poll tax. The Government adopted its non-normal style in Scotland – insider discussions, and announcement of reforms – consultation over detail. The vast collection of experience of local authority finance officers was ignored as each professional grouping experienced in taxation and finance, rejected the proposals as unsound, and in effect were dismissed as the complaints of vested interests.

The poll tax was doomed to failure because of its lack of political acceptability (Hood, 1976), and the administrative problems which it would need to surmount. The complex organisational arrangements, their costliness, and in particular the concern to ensure all taxpayers 'paid' something, even those in poverty and dependent on state benefits, resulted in widespread public discontent *and* continuing problems of collection. It was a classic example of a bad policy, badly designed and bedevilled by problems of implementation. There was simply no recognition of the organisational, administrative, and political limitations on financial reform. In our view, the normal style of bureaucratic accommodation would not have led either to the extension of Treasury controls or radical tax change. Issues of feasibility and practicability would have been raised and understood in the consultative process. The financial reforms were based on weak economic arguments, and the tax reforms on weak political arguments.

Contrastingly, the extension of value-for-money powers has caused little stir to date. In part, we suspect this is because they give the topocrats a reason to reform financial management *within* authorities. It is also, however, because these incremental reforms have only a marginal effect on local government. Given the absence of a clear operational model for achieving VFM, authorities can do their own thing. It is not nearly so destabilising a reform as the financial and particularly the tax reforms. Although the political drive towards VFM comes from the New Right critique of bureaucracy and democracy, the policy instruments are those of rational choice. Past experience does not suggest these will be particularly successful (Dearlove, 1979; Jenkins, 1978).

Since 1979, the Conservatives have followed a bureaucratic control strategy, rather than pursuing the logic of negotiation. The results in Scotland have been:

- extremely high and politically embarrassing rates increases;
- concentration of cuts in capital spending.

The extension of central powers has still not delivered central control. So is there any sign that the Government has learned?

The signs are that it has not. The arms length strategy which characterised what Bullpitt (1985) calls the 'dual polity' has been replaced by increased *interventionism* in the detailed affairs of local government. The partnership approach espoused in other fields is a long way from the norm in local government finance:

What is new especially since 1979, is the Conservative Government's determination to impose public-spending decisions on local authorities, and to dispense if necessary with consultation and persuasion. Thus the new and assertive stance of central government can be seen as a move away, not only from the pluralism of partnership, but also from incipiently corporatist attempts to shape the partners' spending priorities to its own ends (McPherson and Raab, 1988, p. 484).

This concern remains in the recent consultation documents on tax and local government reform.

STRATEGY AND REFORM IN THE 1990S

It does not seem to us that the Scottish Secretary has learned much about the system he seeks to manage. Rather than return to a more normal relationship with local government based on consensus, negotiation and a degree of mutual respect, there has in fact been an intensification of political conflict, an increase in political rhetoric, and an increasing air of farce about government pronouncements about local finances.

This was reflected firstly in Scottish Ministers raising the issue of Scottish local spending in comparison to England and Wales, firstly by Malcolm Rifkind and secondly by Ian Lang. Expressed in the form of a parliamentary answer (presumably to a planted question), Mr Rifkind responded as followed:

You expressed interest in the contrast between the level of local government spending in Scotland and that in Wales.

It is indeed, curious. Wales has a similar social, economic and political composition to Scotland. It has, like Scotland, a higher level of unemployment than in England, and has also experienced the challenge of moving from a dependence on older, traditional industry to a more widely based economy.

Local council spending in Wales, even amongst Labour controlled authorities in South Wales, is not markedly different to council spending in England. Scottish council spending is, per adult, nearly 29% higher.

You might be interested to know that if Scottish local authorities

Table 6.1: Age Structure of Population

Age Group	England (%)	Wales (%)	Scotland (%)
0 - 4	6.5	6.5	6.3
5 - 15	13.5	13.8	13.8
16 - 44	42.9	41.4	43.2
45 - 64	21.5	21.8	21.9
65 - 74	8.8	9.6	8.5
75 +	6.8	7.0	6.3

reduced their spending to the same level as Welsh local authorities and if the Government's contribution remained the same as at present, it would result in the community charge being able to be reduced from its present average of over £300 to £9.

When I met COSLA they were unable to explain why their expenditure should be so much higher than those of Welsh or English local councils.

The figure of £9 is a startling one. It illustrates, however, the unnecessary burden borne by Scottish chargepayers and the substantial scope for lower taxes if Scottish local authorities gradually reduced their high spending to the levels experienced in other parts of Britain. (Scottish Office New Release, 1221/90)

This line of attack was continued by his successor Ian Lang in announcing that the Scottish RSG would rise by around 1 per cent less than in England. He argued that he had taken into account the fact the spending by Scottish local authorities is over 30 per cent higher on comparable services than that by authorities in England and Wales, and that he could see no reason why central taxpayers should continue to support this 'excessive' expenditure (*Scotsman*, 24 July 1991).

Superficiality remains the order of the day. It is astonishing that ministers should have to ask such basic questions about their own expenditure programmes. The local authority overspend on government provision, is only 3 - 4 per cent annually, so that a major part of this excess is *built in to* the Government's expenditure plans. There is a long standing principle in British politics that communities should have broadly equal access to services, and that public resource allocation reflects this. The grant system in each of the three countries underpins this assumption. Although the mechanisms of grant calculation differ, the objectives are similar - 'grant makes up the difference between the Government's perceived need to spend and what can be raised from the local non-domestic rate and the product of a standard community charge' (Department of Environment, 1990, p. 17).

Local authorities' need to spend is mainly determined by population structure, and demographic client groups determine most of authorities grant entitlements. There is little difference in the population structure of Britain.

Table 6.2: Pupil-Teacher Ratios, 1990

	Primary School Pupils per Teacher	Secondary School Pupils per Teacher
England	22.0	15.4
Wales	22.1	15.5
Scotland	20.4	13.0

However, authorities expenditure needs also reflect other factors, such as sparsity of population, and poverty. Both of these factors are included in expenditure needs assessments for grant distribution.

If we examine sparsity first of all, we see that its main impact is to increase the *cost* of providing services, and it is the most pervasive *cost effect* on local authorities. In simple terms, Scotland is nearly twice as sparse as Wales, and Wales similarly is more sparse than England. There are very few authorities in Scotland where sparsity does not have an effect on costs, although it is more pronounced in the most remote authorities, and such authorities receive higher grant as a result. Allowances are made for smaller schools in the education needs assessment. Scotland has nearly 20 per cent of its school population in schools of less than fifty pupils, whilst Wales has 14 per cent, but England only 6 per cent. Scotland has a much higher proportion of school children staying on after the age of 16 (67 per cent, compared with 61 per cent and 60 per cent in England and Wales respectively). In terms of education staffing, needs are related to national standards. Scotland has better pupil-teacher ratios, in part because of the requirements of small schools.

In the case of police services, Scotland has fewer persons per police officer (337) compared to England (402) and Wales (442). This reflects the geographic areas covered which are much greater in Scotland, at 583 hectares per officer, compared to 322 in Wales and 110 in England.

If we turn now to poverty, there are a number of measures available in the public domain. Firstly, despite Mr Rifkind's claim that unemployment levels are similar, in fact they are much higher in Scotland. In January 1990, the figures were 5.3 per cent for England, 6.9 per cent for Wales, and 8.7 per cent for Scotland. If we look at low-income households, the incidence is also much greater in Scotland. For households with incomes of less than £60 per week, the figure is 16 per cent for Scotland, compared to 11 per cent in England and Wales. For those on £60 – £80 per week, 9.5 per cent is the Scottish figure compared with 8 per cent for England and Wales.

There are, of course, a number of allowances for such factors in needs assessments, but in terms of poverty, Wales is closer to England than to Scotland. This is reflected in the Government's *own* Standard Spending Assessments, which give Scotland a standard spending figure of £1276 per

Table 6.3: Local Government Financial Statistics, 1990-91

	England (£/Adult)	Scotland (£/Adult)	Wales (£/Adult)
Total Standard Spending	920	1276	967
RSG	266	620	521
Community Charge for Standard Spending	278	270	173
RSG as a % of Standard Spending	29%	49%	54%

Source: Department of Environment (1990) *Standard Spending Assessments*

person, compared to £920 for England and a Welsh figure of £967. Put simply, the Government *itself* assesses Scottish expenditure needs as 38 per cent higher than England, and 32 per cent higher than Wales. This is reflected in higher grants, with a resultant community charge level similar in Scotland and England, but much lower than in Wales. Table 6.3 reveals that Wales *received* a much higher proportion of its standard spending in grants than Scotland, and that this allows it to levy lower community charges. It is not Scotland that is out of line on spending, but Wales in terms of grants and taxes!

If Scottish authorities were to reduce their spending to Welsh levels, this would require drastic reductions in service. We calculate it would require a loss of nearly 6000 primary and 6000 secondary teachers, 3600 policemen, and 1200 firemen.

Variations in expenditure result from variations in costs, needs, and quality. On the first of these, Scottish authorities clearly have higher costs resulting from diseconomies of scale in providing rural services. There is a higher incidence of poverty which affects the demand for social services in particular, but also for education spending. There are higher standards of service to be found at district level. For example, Scottish library staffing is 14 per cent higher than Wales, and this is because of urban authorities, not rural. We would argue that such differences of quality do not explain major spending differences, which are mostly due to variations in cost and need.

A more comprehensive analysis would more accurately identify the variations, but this is not our purpose. It is to show that the Scottish Secretary appears not to have even *considered* such factors before engaging in political attacks on Scottish authorities, in highly partisan terms. In the past, in the era of consultation and negotiation, the Scottish Secretary has regarded his role as being the champion of Scottish interests in partnership with local authorities in terms of pork-barrell politics (Midwinter *et al.*, 1990; Kellas, 1989). Recent actions reveal how much the pattern of central-local relations has changed, and disintegrated into a narrow partisan clash over control. Put

simply, a government which has an implacable hostility to local government ignores the advice of professions in the consultation process, and blunders on regardless, scarcely bothering to defend a position which even the most elementary analysis would reveal to be wanting.

Yet another set of proposals to reform local government finance was issued in 1991 (Department of the Environment, 1991b). In the contest for the leadership of the Conservative party, Michael Heseltine committed himself to a fundamental review of the poll tax. Public discontent and protest were substantial in 1990 and 1991, with 'poll tax riots' requiring substantial police resources to contain them.

In policy terms, the poll tax had been a non-incremental change with adverse implications for a majority of households. Incrementalist theory informs us that policies which adversely effect a range of interests are unlikely to succeed (Braybrooke and Lindblom, 1963). By seeking to appease business and ratepayers groups, the Government embarked on a costly and unworkable reform. Our analysis showed that a majority of Scottish households were clearly worse off under the new system, and that it also lacked support for the underlying principles. It was, however, only when Conservative MPs in *England* realised the damage potential of the tax for themselves in the next election, that support for a review of the tax swelled. After John Major replaced Margaret Thatcher as Prime Minister, it fell to Michael Heseltine himself to supervise the review.

The subsequent consultation document was in marked contrast in style and tone to the 1986 Green Paper. The latter was long on polemic and assertion and short on analysis, whereas the former reflects the absence of economic advisers and the dominant role of the civil service.

The Government increased its own share of local funding by increasing VAT by 2.5 per cent in the 1991 Budget effectively halving the amount to be raised by the community charge. The new council tax has a property and a personal element, with the latter in the form of a 25 per cent discount for single-person households. Each household will receive a single bill, and liability for the new tax will fall on the occupier (normally the head of household). Each property will be allocated to one of eight bands, and all properties in the same band will attract the same bill for a standard level of spending. The grant system will operate so that a local authority can spend at a standard level by levying a standard amount of council tax for each household in each band.

The Government's proposals brought one immediate political benefit to itself. It defused, if only temporarily, local taxation as a national political issue. Whilst there have been professional criticisms about the valuation proposals, and the discount scheme, overall there is a recognition that the

return to what is a modified property tax will result in a fairer, simpler, and more efficient system.

The Government's approach shifts from a concept of fairness in which everyone except low-income households pay the same, to the more conventional principle of public finance that services are provided on the basis of need, and tax contributed on the basis of ability-to-pay. It is not necessary for a local tax to be fully progressive (Midwinter and Mair, 1987). Not all national taxes are so and general redistributive issues are best dealt with in national taxation. When the effect of the VAT change is included, the changeover becomes even more progressive.

Administration will now be much simpler. The proposals will ease the collection of taxation compared to the community charge, because of the return to single household bills and 100 per cent per cent rebates. They should also allow for a return to payment with rents for council tenants. Although the fine details of the calculation of the liability have yet to be determined, it is clear that after the initial establishment of the tax base is completed, then the administration and updating of the tax will be simpler than either a rental or capital value-based property tax.

It is on the proposals to extend financial controls that most controversy is now focused. The result of the change is that Government now controls 86 per cent of local authority income, and yet it has extended its capping powers at the same time. This combination was seen as damaging to local government by COSLA: 'The combination of a narrower tax base plus the strengthening of capping powers gives central government almost unlimited powers to dictate both the level of expenditure which local authorities can incur and the level of tax which can be levied' (SLGIU, 1991).

The reasonable tone of the tax proposals is in stark contrast to Mr Lang's defence of the new capping powers, and in returning to the use of capping against Lothian in 1991. He claimed, 'Never again under a Conservative government will local authorities be allowed to ride roughshod over local residents with runaway spending programmes. — We are not prepared to stand idly by and allow local councils to clobber the people they are there to serve' (*Scotsman*, 9 May 1991).

The new system places the capacity of central government to assess standard spending, at the centre of the new system, as it was under the poll tax. Although a simplified model of needs assessment is now used in England, in Scotland the system remains unchanged. In both cases, the Government seeks to assess what an authority would need to spend to provide a standard service for a standard tax level.

The theoretical simplicity of this concept is more difficult to achieve in practice. Take the concept of standard spending. To operate this properly

each system would require the prior definition of what constitutes a standard service, followed by a calculation of the cost of providing it. To achieve this comprehensively would require the identification of *all* factors which influence expenditure in *every* authority, including those specific to only a few authorities. In practice, standard service is never defined, and the calculation is simply the means of distributing a pre-determined sum of money to be spent on a particular service between authorities on the basis of a range of general indicators.

If such models were only used to distribute grant, then this would be a matter for debate and refinement. They are, however, used prescriptively, as if they are absolute measures of need, which clearly they are not. Once again, grant distribution systems are being used for purposes for which they were not intended, and for which they are inappropriate.

The extended capping powers, however, places greater emphasis on simple budget increases. For fifteen Scottish authorities, this requires a budget increase of less than 4.5 per cent per annum to avoid being capped. The Secretary of State no longer has to 'demonstrate' spending is excessive and unreasonable. Accountability has shifted from a local electoral model, to what Bramley (1990) calls the scapegoat model. This suggests 'that it is more convenient to retain a degree of local autonomy since this enables many policy failures or contradictions to be blamed on local government' (p. 59).

Bramley sees the 'scapegoat' model as having strong attractions for government ministers:

The optimum system of local finance is one where local authorities have sufficiently nominal autonomy to be held accountable but are sufficiently restricted to prevent them using too much of other people's money or doing any serious damage to the economy or key interests. (Bramley, 1990, p. 63)

Unfortunately, past experience does not suggest this strategy actually works! Consistent attacks on council overspending have not yet persuaded the Scottish public that it is local and not central government that is to blame. Despite the tightening of financial controls, the Government will not be able to prevent unwanted consequences from occurring, and many of the problems of the poll tax will merely continue, undermining even more the 'hands off' concept of the dual polity, and dragging the Government into even more detailed localised conflict which it cannot win.

Firstly, this is because the Government will find itself facing ever increasing representations about its needs assessment models, as they become important means of finance to hard-pressed authorities, through Grant Aided Expenditure. The higher the needs assessment, the higher an authority can spend. The politics of grant distribution will intensify.

Secondly, the limited amount of revenue raised locally suggests some spectacular percentage increases in the council tax. In the short-run, this will be due to budget deficits resulting from poll tax non-collection. But as with the poll tax, other judgements on inflation, tax yields, use of balances or elimination of deficits will continue. Authorities could spend at their needs assessment level and still have lower services and higher taxes than standard. Operationalising a standard tax for a standard service through standard spending remains a theoretical concept rather than a practical reality.

Thirdly, authorities will turn their attention more seriously to creative accounting. As one senior finance official told us in a private interview, the ingenuity of local authority accountants at legally evading central government financial controls is far from exhausted.

Fourthly, the effect of capping will in practice be more widespread. In England, traditionally fiscally prudent authorities such as Warwick and Somerset County Councils have found themselves in conflict with the Government. This will lead to extensive and debilitating political turmoil with councils over needs assessments, capping, tax levels, and so on.

All of this stems from the Government's own narrow definition of accountability, namely that which delivers spending levels acceptable to itself. The failure of the poll tax has led to a new and even cruder version of centralism.

In terms of efficiency, the Government is also set to embark on another half-baked reform. The Government plans to increase the powers of the Accounts Commission to allow them to publish league tables to enable the public to compare the performance of Scottish councils (*Scotsman*, 5 October 1991).

As we have seen, performance indicators remain raw and unsophisticated, and unsuitable for the 'league table' approach (Flynn, 1990). League tables of performance, like needs assessments, will be accepted or rejected by councils according to their acceptability locally. As an intellectual exercise, it is fraught with conceptual problems. In the current state of the art, performance measures are merely indicative, not definitive. They can suggest that a council's policy may be worthy of investigating, but they do not measure its standard of performance. Soon there will be a performance indicator industry to match the RSG industry in the search for better and more realistic measures. But given the range of socio-economic characteristics which distinguish local authorities, it would take far more than simple performance indicators to provide a valid basis for comparison.

Their introduction, however, is symptomatic of a central strategy which remains based on conflict and partisanship rather than consultation and negotiation. It is symptomatic of the continuing search for bureaucratic

mechanisms of control given the continuing gaps in aspirations and objectives between the government and local authorities. The policy mess continues.

CONCLUSIONS

The history of local government finance in the 1980s is a story of policy failures. In essence, the reforms failed because of the inadequacy of the economic and political theories on which they were based. Ministerial rhetoric consistently took the form of a heady brew of false assumptions and unsubstantiated assertions.

The government's economic arguments about its need to control local spending for purposes of macro-economic management cut little ice. Indeed, they are even less convincing now that local authorities raise only 10 per cent of their income. Arguments about the need to cut local spending would have been taken more seriously if the Government's own performance on spending and taxation had not been one of continued growth in real terms. This does not square with its claims to fiscal prudence and sound money (Thain and Wright, 1988). Even on borrowing, its performance has often been little different from its Labour predecessors (Jordan and Richardson, 1987). Indeed, for 1992-93, government borrowing has returned to the high levels of the early 1980s (HM Treasury, 1991). On obtaining office, it attacked 'local government overspending' in a way which bore no resemblance to the reality of the stability and control of local expenditure evident in the latter half of the 1970s. Through a 'hands off' approach, the financial reforms of the period had delivered spending levels broadly acceptable to the Government of the day.

Likewise, its political arguments for reform were based on an unrealistic critique of the functioning of local democracy and bureaucracy. With its origins in abstract economic concepts, the public choice model offered little evidence to support its prescriptions. The result was one of the most dramatic policy failures of the twentieth century. The principles of the poll tax were defended vigorously by Scottish Ministers until its sudden demise, yet a little touch of the old Tory pragmatism would have avoided what is now regarded as a policy fiasco.

From our review of current developments, it is clear that the Government has drawn the wrong conclusions from its experience of the poll tax. Rather than moving back to a more conventional approach based on genuine consultation, it has opted for greater control.

The poll tax failure led to the return of a control strategy, which seems inevitably to be pointing to a further reduction in local political power. The

Table 6.4: Administrative Costs in Scottish Regional and Islands Councils since 1975

	1975 % of Budget	1979	1984	1989	1989 Cash Admin (£ per Capita)	Budget (£ per Capita)	Population
Borders	3.7	3.9	2.9	3.9	30	762	103,500
Central	1.9	3.8	4.2	4.9	35	688	272,100
Dumfries	2.3	2.6	2.7	2.7	20	726	148,400
Fife	2.2	2.7	2.8	3.4	25	739	345,900
Grampian	1.7	1.7	2.2	2.4	17	706	506,100
Highland	3.0	2.6	2.4	1.9	17	897	204,300
Lothian	2.1	2.7	2.5	1.6	12	742	749,600
Strathclyde	3.1	2.4	2.2	2.7	22	810	2,306,000
Tayside	1.6	2.2	2.3	3.0	23	755	394,000
Orkney	4.9	5.7	6.1	5.1	54	1051	19,570
Shetland	2.4	7.6	1.3	2.1	38	1781	22,270
W Isles	2.0	4.4	4.9	4.9	68	1294	30,660
All Regions/ Islands	2.7	2.6	2.5	2.7	21	783	
All Districts	8.7	7.3	7.5	9.0	14	154	

Source: Rating Review

review of the poll tax developed into a more wide ranging consideration of the scope and structure of local government. The resultant consultation document (Scottish Office, 1991) makes proposals for fundamental political and administrative reform in a quite cursory way. There is no robust critique, no convincing body of evidence, no sign of learning from a decade of failure. Strategy and reform remain trapped in the ideological confines of New Right political thought.

The two-tier system is presented as unnecessarily bureaucratic, and remote from local needs and that a single-tier system would strengthen local accountability and deliver services more effectively. Scope for value-for-money and efficiency savings is seen to lie through rationalisation of duplication, in terms of bureaucratic costs and service delivery. Some services may be removed from local government to joint boards or other such arrangements. The extension of the enabling role of local authorities is seen as providing scope for change, and reducing the functional efficiency requirements to have large regions. This will allow the new authorities to reflect local loyalties.

The notion that the single-tier solution is a painless prescription for improvement is reminiscent of the original presentation of the case for the poll tax. Similar claims of simplicity, fairness and accountability were predicted. Unfortunately, the proposals for reform also reflect the poverty of what passes for policy analysis in government these days. A glance at basic statistics in Table 6.4 tells us that little scope for savings actually exists, and

that bureaucratic costs are much lower in the regions than the smaller districts. This is consistent with previous research findings (Page, 1969). Indeed, the pattern suggests that a shift from large regions to a system of smaller councils would actually add to costs, as it is the smaller islands and regional councils which have the highest costs.

Secondly, the wasteful duplication argument is seriously weakened by the results of the Stodart review of concurrent functions, which led to extensive rationalisation (Stodart, 1981). In fact, areas of overlap are also marginal to the system, involving the Urban Programme, Planning and Industrial Development, which accounted for £125 million or 2.2 per cent of all local revenue spending. The notion that financial savings will accrue from structural reform which break up large regions such as Lothian or Strathclyde does not merit serious consideration.

The Government makes much of the change in emphasis in local government to the enabling role. This ignores the fact that its role in service provision is by far the greater role. Contracting out of school cleaning, school meals, and so on, has had important effects on local government (Alexander, 1990). But the mainstream elements of service delivery provided direct by the local authority, such as teachers, policemen or firemen remain. On simple functional considerations, the case for retaining roads, water and sewerage, education, social work and police and fire as regional services is a strong one, as the Stodart Report recognised. The very size of the regions bring them advantages. They have a broader tax base, which allows them to undertake major investment, concentrate expenditure on priorities, and make more efficient use of resources (Stodart, 1981).

The accountability arguments presented are superficial. The two-tier system is seen as a confusing one. Few governmental systems across the world are fully understood by their constituent populations. Research for the Widdicombe Report showed that a majority of Scots thought that health was a local government service, but that does not prevent them getting a doctor or hospital treatment. In fact, the Widdicombe Report concluded that Scottish electors had a reasonable understanding of the location of services within the system (Widdicombe, 1986). Furthermore, it is difficult to see how a reform which required the use of joint management arrangements, special purpose authorities, or centralisation to Edinburgh would actually clarify anything. It would create a more complex administrative network!

These reforms, however, could develop the scapegoat model of local government. The removal of powers would reduce the capacity of local authorities to settle through the democratic process the pattern of policing, the quality of education, or environmental aspects of water and sewerage provision. Smaller, single-tier local government with fewer functions would

make less demands on politically sensitive local taxes, retain the form if not the substance of local autonomy, and allow greater central direction over affairs.

In our view, such changes would be a retrograde step. The alternative forms of service delivery considered offer inferior mechanisms of political control to local government. The subsequent centralisation of power to a government which has consistently attracted only minority support yet pursued controversial policies is not a prospect we relish. To use the language of the New Right, it is an exercise in the downgrading of local government in the self interest of the Conservative party. Like the poll tax, these reforms are narrowly partisan, and will require a costly and unnecessary upheaval, in terms of the need to preserve salaries of existing officials or provide for early retirement; the provision of new computer systems; the relocation of staff into new buildings. This will create higher bureaucratic costs in the move to smaller authorities and the alternative arrangements which will be required if services are removed from local government.

The lessons from our study of local financial reforms are clear enough. If reforms are based on an inadequate analysis of how the existing system actually works, if they ignore the advice of experienced professionals because of an ideology which dismisses them as self-interested, and if they rest on questionable economic and political assumptions, then policy messes, policy fiascos, and policy failure are inevitable. The present strategy offers no solution to the problems of local government finance. Until a relationship of mutual respect is established, local government will continue to be a thorn in the flesh of the government. The recognition that no economic case exists for central control of local spending or local taxation is the prerequisite for creative reform. This would allow the removal of wasteful and inefficient capping controls, and a shift from a regulatory model to an enabling model for the Accounts Commission. It also requires, because of the high degree of financial interdependence, realistic and sensible grant settlements. Finally, it requires an end to the exaggerated rhetoric of politicians, which does democracy a disservice.

We remain pessimistic about the future. The Conservative centralising trend could well be emulated in the proposals from the opposition parties for a Scottish Parliament, which might also take powers from local government. This is not to say we think local government is without blemish. Scope for improvement in responsiveness and efficiency is a permanent condition in all organisations. We do think, however, that its record in the 1980s, in terms of financial performance, is certainly at least comparable to that of central government, and perhaps better. Its problem has been it has faced a government in which 'practical men have been prisoners of theory'

(Hogwood and Gunn, 1984). Until policy analysis in central government improves; until there is clearer understanding of how the system works, and a reduction of the ideological content of financial strategy, there will be no improvement in central-local relations. After a decade of questionable financial reforms, a period of stability is what is required, not the introduction of even more questionable structural reforms, at yet more cost to the Scottish public.

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Arthur Midwinter and Claire Monaghan

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